

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

Workshop: Forecasting and incentivising efficient expenditure for EDBs

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Purpose

- To seek initial views on:
 - the key issues relating to DPP reopeners and CPPs we are currently exploring in the IM Review; and
 - our current direction of analysis on these issues, based on what we heard in submissions on our IM Review Process & Issues paper.
- To seek any views on our view of the coverage provided by current price-quality path reopeners of possible events/scenarios outlined in submissions.
- To outline key potential questions we may want to explore in more detail with stakeholders in our late November 2022 reopener-specific 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

- 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	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • 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

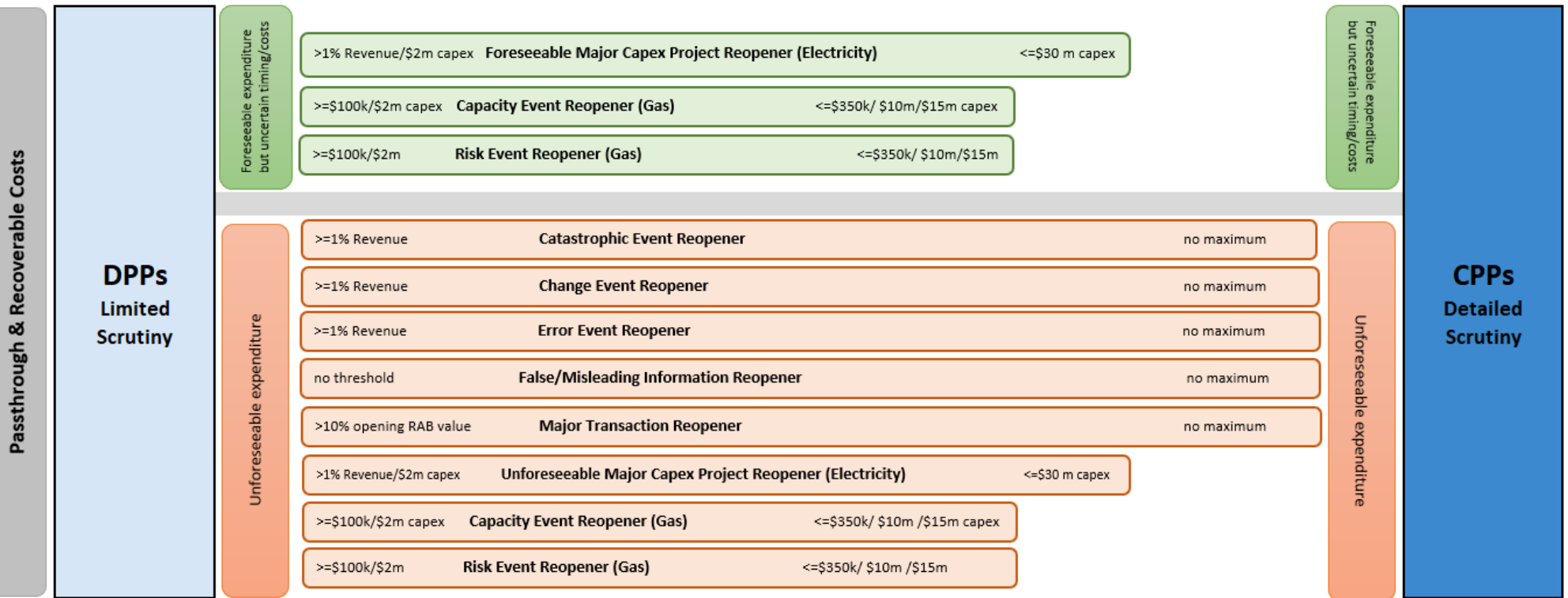
Key issues and current direction of analysis (2)

Key issue	Current direction of analysis
DPP Reopeners: Ambiguity and uncertainty in current reopener provisions	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • Lack of submissions advocating for a single-issue CPP. Our effort will focus on DPP reopeners instead.
Other mechanisms	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • 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

DEMAND

Scenarios from submissions

Unexpected growth of
connections

Increase in capacity

Incremental demand growth

Coverage by current reopener

Unforeseeable & Foreseeable Major Capex
Reopeners

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

Legislative change impacting
others in the supply chain
affects costs for businesses

Once policy is passed into legislation, it is covered
by the change event reopener

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

Inflation

Material increases impacting system growth,
connection and asset relocation project costs
appears to be partially covered under the
Foreseeable Major Capex Projects Reopener

This scenario is being considered in the Risk
Allocation and Incentives topic.

Reopener coverage(4)

General theme from submissions

FLEXIBILITY SERVICES

Scenarios from submissions

Flexibility services

Non wire solutions

Coverage by current reopener

These scenarios are being considered in the Risk Allocation and Incentives topic. We are considering whether reopeners should include opex.

CLIMATE CHANGE

Climate change adaptation

Increased expenditure on disaster readiness & additional reporting

Appears to be partially covered through Change Event Reopener. However, is this largely foreseeable and covered by business' forecasts?

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)

General theme
from submissions

GENERAL
UNCERTAINTY
(NON-SPECIFIC)

Scenarios from
submissions

Limited range of circumstances to
cover unanticipated expenditure
requirements

Coverage by
current reopener

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.

