11 March 2024
Ben Woodham
Electricity Distribution Manager
Commerce Commission
PO Box 2351
Wellington 6140
By email to infrastructure.regulation@comcom.govt.nz

Dear Ben,

Alpine Energy Limited's submission on the Commerce Commission's emerging CAPEX framework for DPP4

Overview

1. Alpine Energy Limited (**Alpine Energy, we, our**) would like to thank the Commerce Commission (**the Commission**) for the opportunity to submit on the Commission's emerging CAPEX framework for DPP4 and for the continued call for input from stakeholders.

2. Our submission does not include any confidential information and we do not require any redaction (including signatures) before publication by the Commission.

3. Alpine Energy supports, in general, the Electricity Networks Aotearoa's (**ENA**) submission on the Commission's emerging CAPEX framework for DPP4. We have highlighted specific areas of additional concern / interest to Alpine Energy in our submission below.

4. We look forward to continued engagement with the Commission as it develops the draft DPP4 decision.

Context

5. In principle, we agree with and support the Commission's proposed steps for setting CAPEX forecasts for DPP4 and the assessment process.

6. The approach to determine CAPEX which meet the criteria for further scrutiny supports a low-cost DPP regime, but only to the extent that the criteria used is appropriate, and the further scrutiny is proportionate given the low-cost DPP regime.

Findings from review of 2023 Asset Management Plans

7. The 2023 Asset Management Plans (AMPs) review conducted by independent consultants, IAEngg, had several limitations, as highlighted on slide 17 of the workshop slides.

8. We agree that the review was based on outdated financial and forecasting information (2023 AMPs) and that the submissions made on the s53ZD information requests will provide a more up to date view of expected CAPEX and OPEX.

9. The report was particularly limited in its findings on the reasonability of OPEX forecasts. We encourage the Commission to explore alternatives to test the robustness and reasonability of OPEX forecasts (like the CAPEX framework).

10. The stated purposes of the AMP as detailed in clause 2.6.2 of the Information Disclosure (**ID**) Determination 2012 is that the AMP -

    a. *"Must provide sufficient information for interested persons to assess whether –*
        i. *Assets are being managed for the long term;*
        ii. *The required level of performance is being delivered; and*
        iii. *Costs are efficient and performance efficiencies are being achieved.*
    b. *Must be capable of being understood by interested persons with a reasonable understanding of the management of infrastructure assets;*
    c. *Should provide a sound basis for the ongoing assessment of asset-related risks, particularly high impact asset related risk."*

11. IAEngg found that "the purpose of the AMPs is broad, but they do not provide full justification of forecast expenditure … they do not include models used by EDBs to forecast demand nor do they outline the relationship between inputs used in expenditure forecasts and the expenditure forecasts. Further, the AMPs do not present the inputs, in particular the new drivers used to forecast demand or expenditure in a defined or consistent way."

12. AMPs prepared by EDBs don't include this information in a defined and constant way, because the IDs don't clearly identify this content as a requirement. Neither is it clearly defined that the purpose of the AMP is to provide the Commission with assurance that demand and expenditure forecasts are reasonable for the purposes of DPP resets.

13. We agree with IAEngg that there are opportunities to improve the ID requirements to better support EDBs and the Commission's use of these plans. But we urge the Commission to engage with the sector as part of the Targeted Information Disclosure Review going forward.

14. We do not believe that it is appropriate for the Commission to critique EDB forecasting based on AMP disclosures that were not designed or fit for this purpose. AMPs should not be conflated with an expenditure proposal.

15. Despite the significant limitations, we urge the Commission to consider the findings regarding the reasonability of investment *decisions* as highlighted in the report. The reasonability of the decision to invest should not be considered in conjunction with the expenditure forecasts, which were not considered as part of the report.

Metrics for assessing system growth, consumer connections, and renewal-related expenditure

16. We agree that the proposed metrics are useful to identify significant changes in expenditure. However, isolated from the context and drivers for the expenditure, provided for in asset management plans, these are a blunt tool.

17. The short timeframe for comparison (2019-2023) used with these metrics disproportionately impacts smaller networks, like Alpine with lumpy expenditure forecasts driven by large upgrades to increase network capacity. We propose that longer reference periods are considered to as an alternative to have a "catch-all" for historic lumpy expenditure.

18. We support the ENA's submission that the change in CAPEX should be considered in the context of the expenditure's impact on consumers and not distorted by raw percentage changes.

Distribution pricing

19. We are unclear about the purpose of the Commission's introduction of distribution pricing into the capex framework, and how EDB responses will be used within the DPP4 context.

20. We agree that distribution pricing has an increasingly important role to play in influencing demand profiles, however EDBs are at varying stages of distribution pricing reform, the Electricity Authority (EA) itself is still working through options and proposals, and consumer connection charges have only recently emerged on the regulatory radar.

21. We strongly advocate for a more joined-up approach to regulatory requirements between the Commission and the EA and agree there are

opportunities for EDBs to improve the efficiency of planned investments through distribution pricing and connection charges. However, given the size and significance of other issues identified as part of this DPP reset, we don't believe the Commission should be focusing on distribution pricing.

Other factors which apply to a DPP4 capex framework, including managing uncertainty and considering deliverability risk

Reopener application considerations

22. We express a genuine concern regarding the Commission's ability and capacity to respond to future reopener submissions, should CAPEX allowances not be set at the levels signalled by EDBs in the most up to date forecasts. Having only had one reopener during DPP3, there is a lack of evidence that the Commission can process multiple reopeners in a timely manner, which will significantly impact the effectiveness of reopeners and EBDs' appetite to apply.
    a. As per our submission on the draft Input Methodologies in 2023 (paragraphs 45 and 46), we again encourage the Commission to issue clear details on the reopener process and process timelines, outlining possible guidelines on required information and application evaluation periods. And to consider templated "fast-tracked reopeners, which we believe will be hugely beneficial for all EDBs considering and applying for reopeners.

23. We are specifically concerned that, even though the reopener for foreseeable large projects, allows for a reopener for the project or programme that was not provided for in the EDB's forecast net allowable revenue (FNAR), despite the project or programme being included in the forecasts used by the Commission for setting the DPP to which the reopener event relates, all other criteria for a reopener event must still be met. This includes meeting the monetary thresholds. The projects we will classify as large for our network won't necessarily meet these thresholds.

24. We would also like to understand how the Commission will identify the projects or programmes which could potentially not be provided for in determining FNAR, e.g. will these be done in consultation with the EDB, and a list of projects be agreed on for specific exclusion? If not, it would be practically very difficult to apply for a reopener in this category after the fact, as it would be hard to proof / support that a project or programme was excluded at the time of determining the FNAR.

25. We are forecasting a significant uplift in asset replacement and renewal (ARR) CAPEX, as signalled on our S53ZD submission in December 2023. Since there are no reopeners available for ARR, it is important to have a clear

understanding of the reasons where ARR forecasts are not allowed when determining the FNAR. Underinvestment in ARR will not be in the long-term best interests of consumers. We therefore encourage the Commission to have increased scrutiny, where needed, for this CAPEX category.

Large Connection Contracts (LCC)

26. We have not yet identified a full list LCC-eligible connection expenditure, but based on our initial high-level assessment we will have only one contract which will meet the 5MW minimum capacity or load and could qualify for an LCC.

Deliverability

27. We appreciate the Commission's concerns about the challenges in delivering increased programmes of work given current labour market, supply chain and economic challenges in New Zealand and we share the same concerns.

28. To the extent that our increase in the forecast works programme is due to cost, specifically system growth CAPEX, we can support our forecasts through a comparison between the scope and type of projects we are including in our forecasts versus the projects we have historically delivered.
    a. For example, in the 10-year forecast period, we have included three new substations. Large projects like these come at a substantial material cost does not need an equally substantial increase in labour hours. These large, once off projects are much dearer than the day-to-day smaller projects.

29. Deliverability should be considered as part of the uncertainty regarding EDB expenditure in isolation of other factors like the type and scope of forecast projects.

30. Output driven metrics, other than cost, can be used to assess deliverability. For example, the number of pole replacements over time versus field crew numbers. This can give the Commission some support as to whether an increased *number* of ARR projects (regardless of cost), can be delivered with proportionately similar labour hours and whether EDBs are driving efficiencies throughout their work programmes.

Additional reporting requirements

31. We agree, in principal, with the Commission's view that an Annual Delivery Reports (ADR) would enable interested stakeholders to monitor delivery progress of an EDB's work programme.

32. However, we believe that many EDBs, specifically smaller and medium-sized EDBs will find the additional compliance burden challenging. In the next 12 months EDBs will have to comply with new DPP reporting requirements and new Information Disclosure requirements. These disclosure requirements will already significantly add to workloads.

33. For ADRs to be meaningful and serve the intended purpose, we recommend that:
    a. These are right-sized for small and mid-sized EDBs (similar to, for example, the NZ International Financial Reporting Standard Reduced Disclosure Regime (NZ IFRS RDR) which allows exemptions to smaller entities from certain disclosure requirements).
    b. Sufficient time is allowed for EDBs to set up the necessary internal processes to capture the correct information before the first disclosure year. If the process is implemented without providing sufficient time, the information will not be robust and ADRs will not serve the intended purpose.

Conclusion

34. We hope our submission is helpful to the Commission and we are happy to discuss our views with you further if you would find it useful to do so or provide any additional information to further support our views.

Yours sincerely,

[redacted]

[redacted]

Marisca MacKenzie
Chief Regulatory Officer
[redacted]

Fabia Fox
Regulatory & Sustainability Manager
[redacted]