

Price-quality path in-period adjustment mechanisms workshop

Questions regarding reopener process, reopener thresholds, type and extent of reopeners, other in-period adjustment mechanisms and CPP mechanism

For use by external stakeholders

This document provides questions to guide feedback on our 29 November 2022 workshop “Price-quality path in-period adjustment mechanisms”. These questions were [published in advance](#) on 23 November 2022 to guide preparation for the workshop and formed the basis for discussion at the workshop on 29 November. We have refined the questions following what we heard at the workshop, but not removed any that were on the previously published list. These questions are intended to inform our review of the Part 4 input methodologies (IM Review).

The slides we published before the workshop are available [here](#). The recording of the workshop will be published [here](#). It would be useful if you could take these into account when answering the questions that follow.

The [framework paper](#) published in October 2022 outlines the core framework for our decision-making for the IM Review. We recommend using the framework (especially the overarching objectives of the IM Review it sets out), in developing your feedback.

Completed forms should be sent to im.review@comcom.govt.nz, with ‘Price-quality path in-period adjustment mechanisms workshop – [your submitter name]’ in the subject line of the email. Please provide us with your feedback by 5pm Tuesday 20 December 2022.

If you have supporting documents that you consider would improve our understanding of the issues, please attach them with your response and reference them in your feedback below.

All completed forms and supporting documents provided to us in this context will form part of the record for the IM Review. We intend to publish completed forms and supporting documents provided to us to enable other stakeholders to engage with them throughout the IM Review. Any request that we not publish content in a completed form or supporting document provided to us must be clear and explicit with reasons supporting why that content is confidential or commercially sensitive. We will consider any such requests on their merits.

Note: “Reopener” as referred to in the following questions is a colloquial term for “in-period adjustment mechanisms” and “reconsideration of the price-quality path”.

A. Questions relating to reopener process

These questions relate to content on [workshop slides 20-25](#).

A1. Would our proposed updated reopener process address any concerns you may have on the current perceived lack of clarity in the reopeners?

Answer: The existing EDB IMs have a process under Subpart 5 Reconsideration of the default price quality path¹.

The updated reopener process presented in the Commission’s (Staff views) discussion slides suggests updating the reopener process so that it is broadly in line with the equivalent process under the Fibre IMs.

While this will improve consistency between regulated entities, supporting information such as guidelines and practical workshops to help EDBs navigate the reopener process considering the challenges we are facing would help improve clarity and ensure the Commerce Commission and consumer needs are at front of mind when EDBs start navigating the process for applying for a reopener.

A2. What do you think of our current thinking on updating the process steps for a reopener, broadly in line with the equivalent process under the Fibre IMs with relevant Part 4 reopener process additions?

Answer: Without first having a better practical understanding of the reopener process it is difficult to provide a view on the current thinking. From a brief review the EDB IMs Subpart 5 looks like the Fibre IMs Subpart 9.²

A3. As our current thinking is based largely on our review of the EDB reopeners, with reference to the Fibre reopener provisions, are there any significant variations to this process that we should consider for Gas or Transpower IMs?

Answer: No comment.

A4. From a workability point of view, how significant is the overhead to produce information for a reopener application? Could suppliers repurpose or use existing business case justification information that they already produce internally for reopener applications?

Answer:

There is a perception amongst EDBs that there are significant overhead costs in developing a successful reopener application. We are aware that the lack of specificity and criteria for success of the reopener requirements can result in an EDB providing a reopener request either with insufficient detail or excessive detail.

¹ Electricity Distribution Services Methodologies Determination 2012 (Consolidated 20 May 2020) [2020] NZCC2

² NZCC Fibre Input Methodologies Determination 20202 (Consolidated 21 December 2021)

This can be addressed by giving EDBs greater clarity along with a structured framework and application template which can help guide what information is required for a given reopener scenario.

Horizon Energy Distribution Limited (Horizon Networks) recommends the Commerce Commission support EDBs through introducing a triage process where a summary of the issue is provided that allows the Commerce Commission to advise what additional information is needed for the Commerce Commission to consider the request. Additionally, the EDB IMs could have a set of expected supporting documents, possibly related to the type of reopener event.

Starting the conversation on a potential reopener with a reduced set of starting information will help ensure an efficient level of resource is applied to any potential reopener by EDBs and the Commerce Commission.

Additionally, the timeframe to consider reopeners needs to improve. If a reopener is required in the third or fourth year of a regulatory period, EDBs need to know the decision, either approved or not within a maximum of six months for most reopener requests in order to be able to apply the reopener within the DPP period. Large, complex reopeners are likely to have a longer approval timeframe.

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- A5.** Note that this topic was not discussed at the workshop:
We are making refinements to DPP reopener IMs to reduce ambiguity, improve clarity and consistency. Please provide examples of areas that could be improved in this respect.

Answer: No other comment made by Horizon Networks, other than already noted for A4 above.

B. Questions relating to reopener thresholds

These questions relate to content on [workshop slides 26-29](#).

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- B1. Are the current reopener materiality thresholds still appropriate? If not, please explain why.**

Answer: For Horizon Networks the current reopener materiality thresholds are considered appropriate, however as uncertainties in the timing and cost of electrification increases, lowering the threshold may become appropriate.

Additionally, the increasing ability for EDBs to implement non-network solutions which can involve an ongoing annual OPEX costs compared to more significant, one-off Capex projects makes it increasingly important for operating cost reopeners need to be an option for EDBs.

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- B2. Some submissions on our Process and Issues paper raised that the cost of more than one project should be able to be considered to meet the lower DPP reopener threshold level. Our current thinking is that projects should only be considered for a cumulative application if each project is substantive, and the projects are part of the same programme or relate to the same scenario. What are your views on this?**

Can you please provide examples of:

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- **where you would have applied for a reopener, if projects could have been considered together?**
 - **potential future situations where you think you might have a number of projects, the combined cost of which will meet the current threshold?**
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Answer: Horizon Networks considers there are merits in considering multiple, unrelated projects to meet the lower DPP reopener threshold.

Examples where this would be of value include situations where step changes or accelerated load growth are occurring across different parts the network at the same time, but for unrelated reasons and prompt investment is required to meet consumer need.

C. Questions relating to the type and extent of reopeners

These questions relate to content on [workshop slides 30-35](#).

C1. Could you please provide feedback on our initial assessment of coverage provided by our existing DPP reopeners of the scenarios from submissions on the Process and Issues paper?

Answer: The initial coverage does not appear to include reliability and security of supply scenarios. Scenarios such as:

- an identified need for improved resilience such as was required following the Kaikoura earthquakes
- where an EDB has a non-network alternative in place from a provider that choses to cease providing that service.

In both of these cases there may be an immediate need to address the reliability and security risks to consumers, outside of what is typically considered within reopeners.

C2. What are the electrification scenarios that you consider need to be accounted for in DPP reopeners, and why?

Answer: Future energy needs such as greater uptake of EVs and electric heating replacing gas are foreseeable expenditure items, the magnitude, timing, and location are difficult to forecast for EDBs. Horizon Networks has also seen an increase in industrial & commercial load and large-scale generation enquiries.

Under Horizon Networks current forecasting approach, we use historical substation load growth trends for organic growth forecast and for step changes, we only consider 'committed' (where the customer submits a formal connection application) applications. As a result, not all possible expenditure is covered in our AMP, and this may drive demand for DPP reopeners.

Forecasting becomes more difficult when government intervention, such as subsidies may influence the timing and magnitude of these increased electrification events.

To address these uncertainties in timing, the AMP could have a generic additional expenditure forecast to allow for this prospect that is reviewed and refreshed each year as new information comes to light.

Uncertainty in the timing of electrification initiatives risks incentivizing EDBs to overstate the forecast expenditure for the next DPP regulatory five-year period, however the consumer impact of not being ready to meet consumers electrification needs is far greater and much harder to address than overstatement of forecast expenditure.

Horizon Networks AMP 2023-2033 forecast is based on historical load growth and committed step changes. We intend to develop decarbonization scenarios and reflect the expenditure forecasts in the coming AMP 2024-2025 forecast.

C3. Process and issues paper submissions suggested that new or expanded reopeners may be needed to address the higher levels of general uncertainty anticipated. Please provide specific examples of scenarios to enable us to assess coverage provided by our current reopeners.

Answer: For the general themes from submissions³ - Demand or Material changes in cost structures the Foreseeable Major Capex Projects Reopener is noted as currently covering the likely reopener.

As New Zealand electrifies the economy, we expect there will need to be greater use of the Major Capex Projects Reopener by Horizon Networks.

A specific scenario Horizon Networks is considering is the construction of an additional line to improve reliability to a remote section of our network. Due to the terrain and timeframes for construction, the uncertainty in the costs could be as high as 60% and under current settings could require both a reopener to start the work and a second reopener if costs are materially higher than forecast.

C4. Is expenditure relating to disaster readiness, cyber security, greater use of digitalisation and data able to be foreseen and is it within the control of suppliers? If not, please explain.

Answer: To an extent these types of expenditure are foreseeable, however over a multi-year period the costs the timing of expenditure are difficult to accurately forecast. Typically, these costs change in response to external factors, such as the ever-changing landscape of cyber security, government policies and regulatory intervention, consumer expectations of EDBs as well as the impact major disasters and disaster preparedness. The timing and costs faced are outside of the control of EDBs.

As the number and impact of severe weather events increases due to climate change, and as increasingly complex systems need to remain secure, the timing and costs of protection will likely change.

C5. Note that this topic was not discussed at the workshop:

³ NZCC Workshop: Price-quality path in-period adjustment mechanisms (Staff views), slide 31.

We are reviewing whether DPP reopeners should provide more scope for opex, for example:

- **there may be scenarios where an opex solution might be more cost-effective than a capex solution**
- **opex that is consequential to capex**

Can you tell us about any other scenarios which might be appropriate for opex to be included in DPP reopeners?

Answer:

Other scenarios include:

- non-CAPEX solutions such as purchasing cybersecurity services
- leasing equipment or services for monitoring and managing our LV network
- avoided cost of distribution (ACOD) payments to generators
- insurance for network assets to mitigate the cost to consumers should a major event occur

Horizon Networks expects greater digitization and the eventual shift to service rather than capital solutions will mean that there are an increasing number of scenarios where OPEX reopeners are required, as an alternative to CAPEX reopeners.

D. Questions relating to other in-period adjustment mechanisms

These questions relate to content on [workshop slides 36-38](#).

D1. Can you identify circumstances in which suppliers might want to make use of a potential DPP contingent project reopener?⁴ Please explain why the current reopeners are not suitable in those circumstances.

Answer:

Contingent reopeners are needed to manage situations where the need for expenditure is known, however the timing of investment is uncertain.

For example, the speed of consumer response to electrification initiatives, such as EV's and exit from gas for heating and cooking is unknown but clearly signposted. Similarly, a step change in load that was unknown could mean major capital investment needs to be brought forward.

A contingent reopener will give certainty that expenditure can be accessed for an identified purpose when a pre-approved condition is met.

⁴ A contingent project is a project that has been listed as a 'contingent project' with an associated trigger event in a DPP/CPD determination. Projects are identified and listed in advance, well supported by information in Asset Management Plans.

Current reopeners are not suitable in these circumstances because:

1. They require EDBs to identify the need and timing of expenditure around 9-12 months before expenditure starts.
2. Current reopeners require a specific trigger and project. (Contingent reopeners could include flexibility to allow expenditure based on location and need).
3. Current reopeners require a specific step change to trigger an event. Contingent reopeners could address the timing and speed of general load growth.

Where a contingent project reopener is applied for, if the final timing is further delayed beyond the current DPP period, it could instead be accounted for in the next DPP period reset modelling.

D2. Which scenarios could we consider including under a DPP wash-up mechanism, and why?

Answer:

Future inflation and industry specific costs such as parts and labour cannot be accurately forecast. A DPP wash-up mechanism could deal with any overruns or underspending relative to the forecast values noted in the AMP / DPP 4 regulatory period.

This helps ensure that the cost to consumers reflects the true cost of supply.

D3. Do you consider that there may be value in us considering a range of in-period adjustment mechanisms, eg, reopeners used for larger suppliers and as part of the DPP, use-it-or-lose-it allowances⁵ for smaller suppliers, and if so, why?

Answer:

As a small trust-owned EDB serving over 25,000 consumers in the Eastern Bay of Plenty region the concept of a use -it-or-lose-it allowances would enable us to respond to changing consumer needs that may not have been forecast at the start of the DPP period (for example due to the rate of electrification on the network).

These allowances can ensure 'right fit' scrutiny of expenditure and allow the Commerce Commission and EDBs to focus their resources addressing high value issues, such as reopeners that are in the millions of dollars.

D4. Can you identify any other potential in-period adjustment mechanisms which you think we should consider? What situations would this cover, which are not covered by current reopeners or other mechanisms we are considering as outlined in questions D1-D3?

Answer: Horizon Networks consider that the options being considered by the Commission in the staff views paper dated 29 November 2022⁶ cover the likely requirements for DPP 4 and DPP 5, at this stage.

⁵ Use-it-or-lose-it allowances are provided where the need for funding has been identified at the time of setting the DPP, but the timing or exact amount of expenditure is uncertain. Unspent allowances are returned.

⁶ NZCC Workshop: Price-quality path in-period adjustment mechanisms (Staff views).

However, there is a need to ensure in-period adjustment mechanisms are fit-for-purpose and address a clearly identified consumer need. This means that the amount of effort required to apply and assess an application should be relative to the size of the adjustment and link back to an identified consumer benefit.

Smaller adjustments should be simple and relatively quick for the EDB to apply for and Commerce Commission to consider, while larger more material adjustments may need more information and time to assess (relative to a small adjustment request).

Ideally the process to create and consider an in-period adjustment should take less than six months.

E. Questions relating to the CPP mechanisms

These questions relate to content on [workshop slides 39-42](#).

E1. What are the barriers or challenges of applying for a CPP?

Answer: The detailed nature of the CPP mechanism, the time required to produce a CPP, and the level of resources required to support a CPP application make this mechanism largely impractical for a smaller EDB such as Horizon Networks.

CPPs are normally only seen as a realistic option for large EDBs that have the resources to develop the CPP and a larger customer base to spread the cost of developing the CPP across.

E2. How do you view the effectiveness of the modification and exemption provisions in the current CPP IMs?

Answer: Horizon Networks is a small trust owned EDB. We have limited resources to consider using the CPP mechanism. Both the level of resources required to apply for a CPP or further apply for the Commission to consider allowing a modification or exemption to the standard CPP mechanism have acted as a barrier to even considering using the CPP mechanism.

The additional costs incurred to apply for a CPP act as a barrier and the CPP process is not considered a good use of our limited resources. The additional costs eventually add to the costs to serve consumers.

The CPP process also involves additional consultation with consumers and additional layers of reporting, both of which incur further cost.

Horizon Networks does not consider that the modification and exemption provisions (IM clauses 5.1.6 -8) will overcome the barriers of cost and resourcing sufficient to overcome the barriers noted above.

E3. Keeping in mind the need for: (1) scrutiny of expenditure for large step-changes in investment associated with CPPs, (2) transparency of information, and (3) ability to consult for interested parties eg, consumers:

- **How might the current CPP IMs be refined to better promote the overarching objectives of the IM Review?**
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- **Are there information or application requirements that you consider are not needed for the regime? If so, which ones are they, and why?**
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Answer: Given the relatively small scale and resources of Horizon Networks, we have not submitted a CPP proposal. Horizon Networks consider the costs and resources required to submit a CPP proposal acts as a barrier to utilizing this in-period adjustment mechanism.

Horizon Networks does not make any comments as to whether it is appropriate to streamline the CPP processes and information requirements. However, if other simplified, low cost in-period adjustment mechanisms can be made available, then they provide a more practical option for smaller EDBs.

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- E4. If you hold a view that our current suite of DPP reopeners does not fulfil a similar purpose as a single-issue CPP, please explain why, and provide examples of scenarios that would not be covered by existing DPP reopeners.**
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Answer: No comment.
