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| Default price-quality paths for electricity distribution businesses from 1 April 2025 |
| Guidance and template for submissions on draft decisions |
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| **Date of publication:** | 29 May 2024 |
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**Purpose of this document**

* This document lists the DPP4 draft decisions and requests submitters to share their views below each group of decisions. We have provided the following template for submitters to use, if they wish, to prepare their submissions.
* We prefer submissions in both a format suitable for word processing (such as Microsoft Word document) as well as a ‘locked’ format (such as a PDF) for publication on our website.
* Submissions on the draft decisions are due **5pm Friday, 12 July 2024**. Cross-submissions are due by **5pm on Friday, 2 August 2024**.
* Submissions should be addressed to Ben Woodham, Electricity Distribution Manager c/o infrastructure.regulation@comcom.govt.nz . Please include ‘Submission on EDB DPP4 Draft decision’ in the subject line of your email.
* 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.

| Request for feedback on DPP4 draft decisions |
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| Capital expenditure (capex) |
| 1. Capex

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| C1 | Use EDB 2024 AMP forecasts as the starting point for setting capex allowances. |
| C2 | Set the capex allowance in constant dollars based on the lower of an EDB’s total forecast capex or 125% of its historical reference period capex, with an adjustment for forecast capital contributions. |
| C3 | Use a five-year historical reference period for setting capex allowances [2019 to 2023 for the draft and 2020 to 2024 for the final determination] with an additional cost escalation adjustment. |
| C4 | Include an allowance for the cost of financing, scaled in proportion to the capex allowance. |
| C5 | Include an allowance for the value of considerations for vested assets and spur assets equal to 2024 AMP forecasts. |
| C6 | Use the All-Groups CGPI forecast with an additional adjustment to escalate the constant price capex allowance to a nominal allowance. |

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| Views/Response: |
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| Operating expenditure (opex) |
| 1. Opex

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| O1.1 | Apply a base-step-trend approach to forecasting opex. |
| O1.2 | Use 2024 as the base year. [2024 AMP forecasts used for the draft decision] |

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| Views/Response: |
| 1. Opex step changes

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| O2.1 | Consider proposed step-changes against a defined set of factors, incorporating judgement. |
| O2.2 | Step-changes should be significant. |
| O2.3 | Step-changes should be adequately justified with reasonable evidence in the circumstances. |
| O2.4 | Step-changes must not be included elsewhere in expenditure allowances. |
| O2.5 | Step-changes should have a driver outside the control of a prudent and efficient supplier. |
| O2.6 | Step-changes should be widely applicable. |
| O3.1 | Include a step-change to reflect increasing insurance costs. |
| O3.2 | Include a step-change for greater consumer engagement. |
| O3.3 | Include a step-change for low voltage (LV) monitoring and smart meter data. |
| O3.4 | Include a step-change for increasing cyber-security costs. |
| O3.5 | Include a step-change for the costs of software-as-a-service (SaaS). |
| O3.6 | Include a negative step-change in Aurora’s indicative forecasts to capture the end of its CPP spend. |
| O3.7 | Cap aggregate step-changes (in real terms) at 5% of trended opex excluding step-changes. |

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| Views/Response: |
| 1. Opex trend factors

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| O4.1 | Escalate all opex costs using the same cost escalator. |
| O4.2 | Escalate opex using the all-industries labour cost (60% weighting) and a producers’ price (40%) indices, plus a 0.3% uplift to reflect EDB-specific inflation. |
| O5.1 | Scale growth forecast separately for network and non-network opex. |
| O5.2 | Use 2018-2024 as the reference period for scale elasticities and driver projections [2024 data available post-draft]. |
| O5.3 | Forecast network opex scale growth with line length (elasticity 0.52) and ICPs (0.45). |
| O5.4 | Forecast non-network opex scale growth with line length (elasticity 0.35), ICPs (0.22), capex (0.30). |
| O5.5 | Forecast lines length extrapolated using recent growth rate trend, and irregular data adjusted. |
| O5.6 | Forecast ICP count extrapolated using recent growth rate trend, and irregular data adjusted. |
| O5.7 | Forecast capex based on a constant growth. |
| O6.1 | Apply an opex partial productivity factor of 0%. |

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| Views/Response |
| Innovation and section 54Q incentives |
|  5. Innovation, energy efficiency and demand-side management

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| U1 | Introduce an Innovation and Non-traditional Solutions Allowance (INTSA), capped at 0.6%. |
| U2 | Incentivise energy efficiency and demand-side management incentives through the INTSA. |
| U3 | Do not introduce a reduction of energy losses incentive. |

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| Quality  |
| 6. Quality standards

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| QS1 | Maintain separate standards for planned and unplanned SAIDI and SAIFI. |
| QS2 | Retain annual unplanned reliability standards for SAIDI and SAIFI. |
| QS3 | Retain the 2.0 standard deviation buffer for setting the unplanned interruptions reliability standards. |
| QS4 | Maintain regulatory period length standard for planned SAIDI and SAIFI. |
| QS5 | Change the planned reliability buffer for the planned interruptions reliability standard to be a 100% uplift on the historic average, capped at a +/- 10% movement from the current standard. |
| QS6 | De-weight the impact of notified planned interruptions by 50% in the assessment of compliance with planned interruption standards. |
| QS7 | Retain SAIDI extreme event standard set at 120 SAIDI minutes or 6,000,000 customer minutes where specified. |
| QS8 | Retain enhanced automatic reporting following a breach of a quality standard. |
| QS9 | No new quality measures are introduced as part of the quality standards applying in DPP4. |
| QS10 | Set interruptions quality standards and incentives for Aurora transitioning from a CPP to the DPP on the same basis as for other EDBs on the DPP. |
| QS11 | Retain the requirement for reasonable reallocation of SAIDI and SAIFI following an asset transfer between EDBs. |

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| Views/Response |
| 7. Quality incentives

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| QIS1 | Retain the revenue-linked quality incentive scheme for planned and unplanned SAIDI. SAIFI is excluded. |
| QIS2 | Unplanned incentive rates are informed by the value of lost load (VOLL), discounted by (1-IRIS retention factor) to reflect expenditure incentives, and a further 10% to reflect quality standard incentives, with VOLL set at $35,374r/MWh. |
| QIS3 | Planned incentive rates are reduced by 35% relative to the unplanned incentive rate. |
| QIS4 | Planned ‘notified’ interruptions are reduced by 75% relative to the unplanned incentive rate to reflect less inconvenience to consumers. |
| QIS5 | Incentives are revenue-neutral at the average of the reference period, also known as the target. |
| QIS6 | The SAIDI caps (which determine maximum losses) are set equal to the SAIDI limits for planned and unplanned SAIDI. |
| QIS7 | The SAIDI collars (which determine maximum gains) are set at 0 for unplanned and planned SAIDI. |
| QIS8 | Cap revenue at risk at 2% of actual net allowable revenue. |
| QIS9 | Do not implement any new incentive schemes. |
| QIS10 | Do not make an explicit adjustment to match the duration of retention benefits between EDBs and consumers.  |

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| Views/Response: |
| 8. Normalisation

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| N1 | Normalisation only applies to unplanned interruptions, which are the only initiators of a major event day. |
| N2 | Retain the normalisation approach used in DPP3, being:* define a major event as 24-hour rolling periods (assessed in 30-minute blocks)
* the major event boundary value has been identified as the 1104th highest rolling 24-hour period for SAIDI and SAIFI over the 10-year reference period
* normalisation is applied on half-hour blocks, within a major event, where the SAIDI figure exceeds 1/48th of the boundary value, and
* treat major events by replacing any half-hour that is greater than 1/48th of the boundary value with 1/48th of the boundary value if that half-hour is part of the major event (can exceed 24 hours in duration).
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| N3 | SAIDI and SAIFI major events are triggered independently. |
| N4 | Set a higher boundary for very small EDBs. |
| N5 | Retain additional reporting by EDBs for each unplanned major event in its compliance statement consistent with DPP3. |

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| Views/Response: |
| 9. Reference period

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| RP1 | Use a 10-year reference period from 1 April 2013 to 31 March 2023 to inform the parameters for unplanned interruptions reliability standards and incentives, with the period adjusted to 1 April 2014 to 31 March 2024 for the final determination. |
| RP2 | Apply a reference period for planned interruptions of 2017 – 2023 for the draft decision, extended to 2017 – 2024 for the final decision. |
| RP3 | Retain the cap on inter-period movement, ±5% for unplanned interruptions for both the SAIDI and SAIFI unplanned target and also apply this to the SAIDI and SAIFI unplanned limits. |
| RP4 | Make no explicit step changes to reliability targets or incentives. |
| RP5 | Make no explicit adjustments for instances of non-compliance contained within the unplanned interruption reference period dataset. |
| RP6 | EDBs must record successive interruptions on the same basis they employed in responding to the s 53ZD notice. |
| RP7 | Interruptions directly associated with an approved INTSA project are excluded for calculation of SAIDI and SAIFI values up to a cap of 0.5% of the respective SAIDI and SAIFI limit. |

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| Views/ Response: |
| Revenue path |
| 10. Price path

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| P1 | Set starting prices based on the current and projected profitability of each supplier using a building blocks allowable revenue (BBAR) model. |
| P2 | Set a default rate of change relative to CPI (X-factor) of 0%. |
| P3 | Set alternative X-factors such that, in most cases, initial price shock is limited to 20% in real per ICP. terms, and the change between years within the regulatory period to 10% (based on the price shock and notional financeability assessments). |
| P4 | Assess price shocks on a real revenue per ICP basis, incorporating wash-ups and IRIS. |
| P5  | Assess notional financeability using FFO/Debt and Debt/EBITDA ratios. |

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| Views/Response: |
|  11. IRIS

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| I1 | IRIS retention rate for capex is equivalent to the opex rate. |
| I2 | Determine IRIS opex and capex forecasts in real terms (inflated by CPI). |

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| Views/Response: |
| 12. Revenue Path

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| R1.1 | Apply a revenue cap with wash-up as the form of control. |
| R1.2 | Forecast CPI based on the four-quarter average change in CPI between the first year of the regulatory period and the current year. |
| R1.3 | Apply a 90% "voluntary undercharging" limit (or an alternative in some cases). |
| R1.4 | Include a large connection contract (LCC) wash-up term in the wash-up accrual formula, to avoid recovery of LCC revenue from other customers. |
| R1.5 | Allow distributors to agree a reasonable reallocation of revenue following an asset transfer. |
| R2.1 | Apply the revenue smoothing limit based on forecast net allowable revenue for the current year and CPI-adjusted recoverable costs from the prior year. |
| R2.2 | Apply a revenue smoothing limit of 10%. |
| R3.1 | Implement the revenue wash-up by specifying a re-run of the DPP4 financial model. |
| R3.2 | Calculate the Y1 inflation wash-up based on the four-quarter average change in inflation between Y0 and Y1. |
| R3.3 | Do not specify base revenue wash-up draw down amounts for DPP4. |
| R3.4 | Calculate the time-value of money of the opening wash-up balance using one year of the DPP3 WACC and one year of a blended DPP3/DPP4 WACC (for a value of 5.25%). [This will be updated for the final decision.] |

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| Views/ Response: |
|  13. Other Matters

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| X1 | Retain the current five-year regulatory period length. |
| X2 | Include Aurora in the DPP4 expenditure and revenue setting process. |
| X3 | Retain the CPP application timings set for DPP3. |

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| Views/Response: |
| 14. Other inputs to the financial model

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| M1 | Weighted average cost of capital (WACC) of 7.37%. [This will be updated for the final decision.] |
| M2 | Include an allowance for disposed assets, based on historical levels. |
| M3 | Forecast depreciation on existing assets based on information provided by each EDB. |
| M4 | Use base year data from 2024 Information Disclosures in our final decisions, and data from 2023 Information Disclosures for our draft decisions. |
| M5 | For CPI forecasts, use the most recently available RBNZ MPS forecasts from when the WACC was determined. |

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| Views/Response: |