

## EDB DPP4 Workshop on capital expenditure framework design: Agenda and questions



The purpose of this capex workshop is to share our early thinking on key components of the capex framework and seek feedback from interested stakeholders on emerging Commission staff views.

This document sets out the agenda, the topics we would like to engage with you on and an indication of the focus for the group discussions.

Our emerging views reflect preliminary thinking of Commission staff only. It does not reflect Commission positions or in any way prevent the Commission from taking different positions on the relevant matters.

We are circulating this in advance to give stakeholders time to prepare for the workshop and decide who best should participate given the proposed technical content. Full workshop slides will be sent to those who have RSVP'd and will be available on our website by COB 19 February 2023. We invite written feedback on Commission staff emerging views up until COB 11 March 2024.

9:30 – 10:00am	Session 1: Setting capex allowances within a DPP, including use of 2023 AMP Review
<p><b>Purpose:</b> Provides an overview of the DPP regime, the role of a capex framework within a DPP, and what we have learned from the “NZ EDB 2023 AMP Review” report.</p> <p><b>Key topics:</b></p> <ul data-bbox="181 926 2807 1052" style="list-style-type: none"><li>• The DPP regime - what it does and doesn't do</li><li>• Context for setting capex allowances for DPP4</li><li>• Emerging view of how the “NZ EDB 2023 AMP Review” report prepared by independent engineering consultants IAEngg could be used in the capex framework.</li><li>• Role of proportionate scrutiny</li><li>• High level view of the capex framework</li></ul> <p><b>Staff emerging view:</b> We are setting DPP4 in the context of an energy transition and increased levels of uncertainty regarding the timing, need and cost of investments. Our emerging staff view is to use EDB AMP forecasts with proportionate scrutiny applied to mitigate risks that forecasts may reflect investments that might not be delivered or be inefficient (which would result in excessive prices for consumers) balanced against the risk of setting expenditure too low resulting in a high reliance on CPPs and reopeners, or underinvestment. Our approach, and its outcome, needs to be consistent with the requirement that the DPP is relatively low-cost.</p> <p>The findings from the AMP Review are useful at an aggregate level but were not intended to be directly used to set individual capex allowances for DPP4 purposes. As part of Session 2, we seek your views on how we consider the review findings could inform the setting of thresholds in the capex framework and support targeted additional scrutiny.</p>	
10.00-11:30am	Session 2: Assessing capex forecasts
<p><b>Purpose:</b> Explains our understanding of the key drivers for expenditure, how we have used these to identify potential metrics, emerging staff thinking about how these metrics could be used when setting capex allowances, and what proportionate scrutiny may involve for DPP4.</p> <p><b>Key topics:</b></p> <ul data-bbox="181 1667 2807 1703" style="list-style-type: none"><li>• Investment drivers by capex category</li><li>• Potential metrics by capex category</li><li>• Choice of reference period</li><li>• Additional scrutiny that could be applied</li></ul> <p><b>Staff emerging view:</b> Our analysis indicates that despite the emergence of new drivers of investment, expenditure for most EDBs is predominantly due to traditional drivers (such as organic growth and system security) but the scale of investment is different. Emerging drivers (such as EV chargers) underpin a significant portion of forecast expenditure for a small number of EDBs, particularly in the system growth category.</p>	

**Discussion focus:**

- The use of traditional metrics for capex categories that are predominantly driven by traditional drivers, eg, asset replacement and renewals and consumer connection.
- Potential metrics for assessing system growth where a large portion of the forecast spend is driven by emerging drivers, eg, EV charging and distributed energy systems.
- Identification of alternative metrics and tests that could be used to assess each of the capex categories.
- How we can use information that we already collect (such as Asset Management Plans, and Information Disclosure Schedules), the potential role of additional engineering reviews, other information (such as the AMP Review report and s53ZD information), and wider low-cost information sources to assess expenditure that exceeds certain thresholds.

11:30-11:35am

**Break**

11:35-12:25pm

**Session 3: Other factors which apply to a DPP capex framework, including managing uncertainty and considering deliverability risk**

**Purpose:** Sets out how we propose the capex framework could take into account the availability of flexibility mechanisms (including DPP reopeners and CPPs), and the risk of EDBs not being able to deliver significantly elevated expenditure programmes.

**Key topics:**

- Overview of available flexibility mechanisms and how they operate within DPP4, including for large connection contracts.
- How we can use existing flexibility mechanisms in the regime to manage uncertainty
- Deliverability risk and how it could be reflected in the capex framework

**Staff emerging view:** While we understand EDBs may have considered the deliverability of their programmes of work individually, it is unclear how this aligns with expected industry-wide constraints on materials, equipment and skilled personnel. Our emerging staff view is that we consider deliverability alongside need, timing and cost when adjusting expenditure allowances to account for uncertainty.

Flexibility mechanisms were considered in detail as part of the IM review and changes made to recognise emerging uncertainty facing EDBs where justified. Our emerging staff view is that no further refinements are required to the mechanisms apart from the need to consider how they can be appropriately applied in DPP4.

**Discussion focus:**

- What are your views on our proposal to consider deliverability as part of uncertainty regarding EDB expenditure, alongside need, timing and cost? What alternatives do you propose?
- Are there particular categories of capital expenditure which are more likely to be exposed to potential deliverability constraints?

12:25pm – 12:30pm

**Next steps & Close**