Orion

16 October 2019

Dane Gunnell

Manager, Price-Quality Regulation

Commerce Commission

PO Box 2351

Wellington 6140

By email: regulation.branch@comcom.govt.nz

Dear Dane

Cross Submission on EDB DPP3 Updated Draft Models (the Paper)

Introduction

1. Orion welcomes the opportunity to cross submit on the Updated Draft Decision and Models on default price-quality paths for electricity distribution businesses from 1 April 2020.
2. We support the ENA cross submission.

Summary

3. We conclude from reviewing submissions that there is general support for the refinement to the system growth category test for capex and for normalisation to 24 hours for quality.
4. We also support of the following points in cross-submissions;
    i. Ensure CPI forecast is conservative
    ii. Remove the 120% cap on capex, use AMPs and engagement where necessary
    iii. Expand connection reopener to include system growth
    iv. Retain 2-out-of-3 rule
    v. Remove inter-period cap on unplanned outages
    vi. Use 5-year reference period for planned outage target setting
    vii. Provide workshops on application of normalisation

    Further detail is provided in the body of our cross-submission.

Orion New Zealand Ltd
565 Wairakei Road
PO Box 13896
Christchurch 8141
+64 3 363 9898
oriongroup.co.nz

5. There are issues and errors raised by submitters about the models that should be rectified and addressed. The updated models should be re-released as a package when the final DPP3 decision is published.

Ensure CPI forecast is conservative

6. We support Unison's submission that forecasting of CPI, especially in the current environment, should be conservative. Unison is concerned that CPI forecasts are too high and appear significantly optimistic.[1]

Remove 120% cap on capex, use AMPs and engagement

7. In our submission we submitted our concern about the use of the 120% cap on capex. We suggested that AMPs and further engagement with the relevant EDBs was necessary[2] and ENA supports this.[3]
8. Vector has submitted for removal of the overall 120% cap in favour of the category level expenditure assessments. They submit that the cap step "undermines the analysis of the capex approval for the first step given some expenditure apparently initially being deemed as reasonable for the expenditure category are subsequently removed from the application of the total cap."[4] We agree with Vector and continue to support use of AMPs and EDB engagement where necessary.

Expand connection reopener to include system growth

9. Waimate District Council and Lines Trust South Canterbury both submit that capital development will be unable to be adequately funded because "the calculation methodologies penalise regions where there is a capital growth requirement for new infrastructure."[5]
10. Tasman Energy has also submitted that "the Commission's current capex forecast is less than half of what we are forecasting……..There is a gulf between the two forecasts and the considerable IRIS implications for Network Tasman if the Commission's forecast is incorrect."
11. The updated draft decision did indicate that Wellington Electricity's submission on expanding the connection reopener to other areas of capital expenditure, like system growth, was still being considered and we submitted in support of this. These shareholder comments, as representatives of the community, and EDB submissions, reinforce the need to make available a reopener approach rather than having to prepare a high cost CPP. This is an issue particularly for smaller EDBs.

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[1] Unison submission on DPP3 update- page 1
[2] Orion submission on DPP3 update- point 11
[3] ENA submission on DPP3 update- point 14(ii)
[4] Vector submission on DPP3 update- point 5
[5] Waimate District Council submission on DPP3 update- point 4, Lines Trust South Canterbury submission on DPP3 update- point 3

Retain 2-out-of-3 rule

12. We support Powerco's evidence and position[6] that the 2-out-of-3 rule should be retained for DPP3. The 2-out-of-3 rule protects the quality regime from penalising EDBs and their directors for circumstances that do not align with the objective of capturing only material network deterioration and mitigating the risk of false positives. The ENA is unanimous in its position that the 2-out-of-3 rule should be retained for DPP3[7].
13. The Waimate District Council specifically comments that "The Commerce Commission has significantly increased penalties for directors where SAIFI and SAIDI performance is not met which is putting additional risk on directors.[8]" Faced with this sort of risk there will be incentives to over-invest.
14. Centralines and Unison take a strong position that "the possibility of severe consequences for compliance breaches may incentivise EDBs to over invest to avoid the risk of breach in years where there are more severe weather events than average."[9]
15. Preserving the 2-out-of-3 rule, given the broader exposure to breach from splitting planned and unplanned metrics and the additional possibility of an extreme event standard, is prudent. The 24 November 2014 main policy paper for DPP2 said that;

"Quality standards set to balance identification of quality against risk of false positives

6.9 the quality standards employ the two-out-of-three year rule because this allows for one-off poor performing years, which alone may not constitute an underlying material deterioration of reliability (for example, due to natural variability)."

The premise of one-off poor performing years is still relevant therefore retaining the existing provision of a 2-out-of-3 rule as part of the quality regime remains valid and makes good sense.

[6] Powerco submission on DPP3 update- page 1, Attachment 1 and Attachment 2
[7] ENA submission on DPP3 update- point 29
[8] Waimate District Council submission on DPP3 update- point 5
[9] Centralines submission on DPP3 update- page 4

Remove inter-period cap on unplanned outages

16. Vector recommends the Commission remove the inter-period cap on unplanned SAIDI and SAIFI[10]. Vector suggests accompanying analysis as to how the capped limit can be achieved is necessary otherwise the cap is an arbitrary limit. In our submission we commented that there was no detail provided on what had changed with the cap on inter-regulatory period, between the initial and updated draft decisions, because a change was indicated but no further commentary was provided[11].
17. In the May 2019 draft decision reasons paper very little explanation was provided on the reasons for the inter-period cap. Only two comments seem relevant, "We consider that some flexibility in inter-period movements may be warranted given that DPP2 is not necessarily the 'right' benchmark"[12], and "We consider that, with a cap on inter-period movement, the asymmetric exclusion of outliers is unnecessary."[13]
18. We resubmit that further explanation is required as to the benefits or otherwise of an inter-period cap. In the absence of this we support Vector's suggestion for removal of the inter-period cap.

Use 5-year reference period for planned outage target setting

19. The ENA submission[14] reminds the Commission that EDBs unanimously support using a 5-year reference period for setting the planned targets. As Vector points out "the earlier years of the reference period [using a 10-year window] are significantly divorced from the asset work programme for DPP3"[15]. This point has not been addressed in the updated draft decision and we would expect this to be addressed in the final decision.

Provide workshops on application of normalisation

20. Unison submitted that "the complexity of the proposed new approaches [for normalisation] creates risk that an EDB will not correctly apply the intended methodologies for normalisation".[16] They suggest that the Commission run further workshops after the final decision is published. Our submission supports issue of guidance by the Commission[17], we would attend the type of workshop Unison suggests and therefore agree with Unison.

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[10] Vector submission on DPP3 update- point 42
[11] Orion submission on DPP3 update- point 16
[12] DPP3 draft decision May 2019- point J16
[13] DPP3 draft decision May 2019- point J38
[14] ENA submission on DPP3 update- point 35
[15] Vector submission on DPP3 update- point 38
[16] Unison submission on DPP3 update- page 1
[17] Orion submission on DPP3 update- point 21

Correct model issues and errors

21. There are issues and errors raised by submitters about the models that should be rectified and addressed. The updated models should be re-released as a package when the final DPP3 decision is published.

Concluding remarks

Thank you for the opportunity to provide this cross-submission. We do not consider that any part of this submission is confidential. If you have any questions please contact Dayle Parris (Regulatory Manager), DDI 03 363 9874, email dayle.parris@oriongroup.co.nz.

Yours sincerely

Rob Jamieson
Chief Executive Officer