



9 October 2019

Dane Gunnell
Manager, Price-Quality Regulation
Commerce Commission
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By email: regulation.branch@comcom.govt.nz

Dear Dane

Submission on EDB DPP3 Updated Draft Models (the Paper)

Introduction

1. Orion welcomes the opportunity to 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 submission including matters not raised in this submission.
3. It is clear from the Paper that the Commission is still considering a number of matters from earlier submissions and cross submissions to the draft decision in May.
4. It is also clear that earlier submissions have been carefully considered and the updated draft decision directly addresses some of the concerns raised by submitters.
5. Subject to comments in our submissions we continue to support the Commission's use of the standard DPP process for Orion's reset in our transition from a CPP.

Summary

6. Overall, we support the updated proposals for the approach to system growth and quality normalisation except where we make specific comments below.
7. On some matters we are requesting that further clarification be provided in the final DPP3 decision.
8. We have raised some issues and errors with the models that should be addressed or corrected in the final DPP3 decision.

Revenue and expenditure allowances

9. We endorse the use of an updated release of NZIER's forecasts of LCI (labour cost index) and PPI (producer price index) as part of updating the opex allowances for the updated draft decision.

10. We are heartened by the Commission taking the time to consider other possible changes to opex allowances, as part of the final decision, including elements such as partial productivity, input cost inflation and non-scale step changes submitted on by EDBs as part of responses to the draft decision. We submit that this remains important.

11. On capex, we remain concerned about how an EDB can make a prudent but not too significant step change in expenditure over historical levels especially where this eventuates from a gradual historic increase in ICP numbers and in the absence of reasonable levels of historic capex. We submit that there is still scope for use of AMPs to enhance informed setting of capex where the initial gating test or historic average test, 120% cap, fails.

System Growth Capex

12. The paper has acknowledged feedback by submitters regarding concerns with the previous system growth gate test and has proposed an alternative approach.

13. Overall we support the paper's adjusted approach to assessing system growth capex by treating system growth expenditure together with consumer connections expenditure. Our main concern still rests with the use of 'fall-back' forecasts when a gate test is failed. We believe there is still scope to use AMPs and engage with the relevant EDB to ensure that the decision is not missing any key context. It appears with the new gate test that the engagement would be manageable within a low cost DPP as the number of direct engagements required with EDBs may be low.

14. We support inclusion of additional information about planned new zone substations as part of information disclosure to assist with future system growth expenditure assessment.

15. The paper indicates Wellington Electricity's submission of expanding the connection reopener to other areas of capital expenditure like system growth is still being considered. We support this.

Quality standards and incentives

16. Point 3.10 suggests a change to the application of the cap on inter-regulatory period change for unplanned reliability to better reflect the 5% limit in increases and decreases of parameters between regulatory periods. While the paper says this results in a minor increase to limits for some distributors no detail is provided on what the change is.

Normalisation of major events

17. We submit that the proposed move from a 3 hour rolling assessment to a 24 hour rolling assessment for identification of major events provides a better approach, compared to that proposed in the initial draft decision, and is more reflective of the nature of operational response.

18. We support those half hours within the major event that exceed 1/48th of the boundary value being replaced with (capped at) 1/48th of the boundary value.

Model corrections

19. **Disposals Model, Orion specific correction:** The updated draft DPP model projects our disposal values using the average of the last 5 years:

Calculations					
Inputs					
	2014/15	2015/16	2016/17	2017/18	2018/19
Change in CPI		0.41%	2.15%	1.10%	1.48%
Disposals	1,100	3,055	1,663	996	1,378

In the highlighted year we had a one-off disposal that will not be repeated, and this has overstated the average, and suppressed our RAB projection.

The one-off adjustment relates to the removal of temporary assets that were installed in the aftermath of the 2011 Canterbury earthquakes, and were noted in the audited ID schedules with the following note:

Two projects account for around \$53m (46%) of our commissioned assets in FY16:

- first, we completed our permanent 66kV underground feeds in the east of Christchurch – from Transpower’s Bromley grid exit point to our McFaddens, Dallington and Rawhiti zone substations. We commissioned around \$21m for this project in FY16. Project completion enabled us to remove our temporary 66kV overhead lines in the east, with a write-down on disposal of \$1.6m

We submit that for the purpose of the projection, it would be appropriate to reduce the FY16 disposal input in the model (highlighted above) by \$1.6m. This increases our RAB in the roll forward projection, and the model shows that it increases our total 5 year MAR by about \$350k.

20. Operating Leases: We note in the operating lease 'inputs – s53ZD' workbook that certain EDBs are noted as advising that they do not expect to capitalise operating leases. We submit that Orion does not expect to capitalise operating leases either.

Guidance

21. We commend the Commission's plan to issue guidance to aid distributors in understanding compliance obligations under the DPP once the final decision is published. It is important that our understanding of our obligations for data collection, monitoring and reporting are aligned with your own.

Concluding remarks

Thank you for the opportunity to provide this 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