

29 June, 2021

Tim Hewitt  
Chief Advisor  
Commerce Commission  
PO Box 2351  
**WELLINGTON 6140**

By email: [tim.hewitt@comcom.govt.nz](mailto:tim.hewitt@comcom.govt.nz)

Dear Tim,

## **APPLICATION FOR UNFORESEEN MAJOR CUSTOMER CAPEX REOPENER**

As discussed with you on 19 April, Unison is seeking to reopen its DPP path to provide for major capex associated with a connection to Contact Energy's Tauhara generation plant in Taupo. The project is to provide a construction supply to enable Contact to construct the power station and a permanent supply from Unison's network to the generation station. The principle connection to the grid to supply electricity from Tauhara is via a separate connection to a new Transpower Grid Injection Point, which is not covered under this application and is not an electricity conveyance service that Unison is engaged to supply.

In this application made under Part 4, Subpart 5, Clause 4.5.5A of the Electricity (Input Methodologies) Determination 2012 we have provided information that we believe is relevant to the Commission's consideration of a reopener. Once you have confirmed the adequacy of the information or any further requirements, we would make the formal application. [

## **)] CONFIDENTIAL INFORMATION REDACTED**

The information we have provided with this application includes:

1. Relevant project background;
2. A table that summarises the incremental impacts of the major capex on Unison's finances over the course of the project;
3. Our estimates of the impacts on Unison's DPP allowances, including the relevant DPP models;
4. A table that summarises the relevant requirements set out in Subpart 5, Clause 4.5.5A of the Electricity (Input Methodologies) Determination 2012; and
5. A letter from Contact Energy to the Commission confirming the project.

***Project background***

Unison's 2019 Asset Management Plan forecast, which was subsequently used as the basis for capital expenditure in DPP3 was finalised in late 2018. In line with normal, expected practices the forecasting data in respect of customer connections capex reflected the best available knowledge of upcoming new connections activity at the time of preparation.

Unison was aware (as it is for many major customer projects) that Contact Energy's Tauhara geothermal power station project near Taupo had been under consideration for some time. However, by the time of finalising the forecast for Unison's 2019 AMP, no commitment to proceed or even a firm enquiry for a new distribution system connection had been made. In addition, following announcement of the impending closure of the Tiwai Point smelter considerable doubt was cast over whether the project would proceed in the near-medium term. Therefore, whilst Unison had knowledge of the potential project, there was no firm indication that:

- a) the project was likely to proceed during the upcoming DPP3 period, or
- b) a local distribution network connection might be required (most large-scale generation stations are solely grid connected).

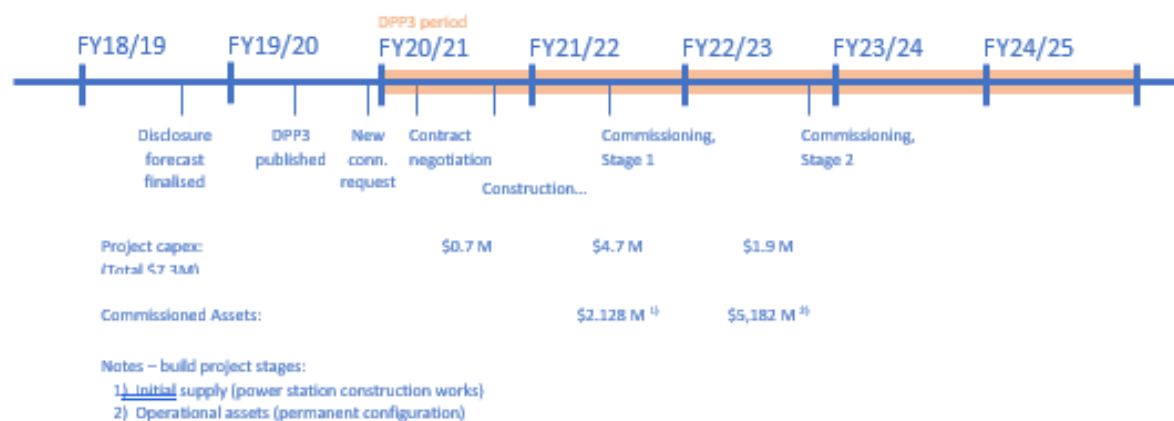
It was therefore deemed appropriate, consistent with good forecasting practice, not to make provision for this project within the 2019 AMP.

Subsequently, Contact Energy approached Unison in August 2019 to tender a price for the provision of a construction supply to enable Contact to build the power station and provide a connection into Unison's network to meet operational requirements, including power station back-up auxiliary supply. Contact had other options to achieve its operational requirements, including constructing and owning assets itself, but ultimately Unison was successful in negotiating terms with Contact to meet its requirements. No capital contribution was required as Contact Energy is considered a financially strong counter-party. Contact executed the contract with Unison on 2 February, 2021. The total contracted project value is \$7.3 million with assets commissioned over three stages albeit within two financial years.

In addition, to the capital expenditure required to deliver the new connection, Unison also seeks operating expenditure allowances associated with insuring the non-wire assets of \$4.4k in 2023/24 onwards. Unison would absorb the insurance costs in prior periods.

***Timeline***

The following graphic summarises the process steps and key capex and commissioned asset values in relation to the Tauhara Power Station connection project:



### ***Mechanics of the adjustments to the DPP model***

As this is a new process, there is not clarity on the mechanics of how the additional capex and opex would flow through to the revenue allowances, but we believe that the following process and adjustments to the DPP model and relevant IRIS allowances would be required:

1. Take the Commission's *Financial-model-EDB-DPP3-final-determination-27-November-2019.xls* ("original DPP model") as published on 27 November, 2019 and record the BBAR outputs for Unison Networks;
2. Adjust the Commissioned Asset values in the Inputs sheet in the original DPP model for the additional agreed capex according to the commissioning dates recorded in the contract between Unison and Contact Energy (updated DPP model);
3. Adjust the opex expenditure values in the original DPP model for insurance costs;
4. Calculate the differences between the BBAR values in the updated DPP model and the original DPP model;
5. Add the differences in BBAR to Unison's FNAR in schedule 1.4 in the DPP Determination;
6. Add the increased commissioned assets amounts to the table of commissioned asset values for capex IRIS purposes in Schedule 2.2 and additional opex in Schedule 2.2 of the DPP Determination.

We have suggested that adding the incremental BBAR amounts to the forecast notional allowable revenue (FNAR) is the most practical way of providing for a suitable revenue allowance to cover the capital charges associated with the additional assets. We do not believe it would be appropriate to make any adjustments via the recalculated MAR because the MAR smooths revenues over the entire regulatory period, which would require a retrospective adjustment to the starting revenue allowance for the first assessment period of DPP3 which is not possible to apply.

If Unison is not correct that the appropriate adjustment should be to the FNAR, then we assess that an additional \$989k in present value (as at 1 April, 2021) is required over 2021/22 to 2024/25.

The following table sets out the adjustments that we believe should be made to the Determination:

Year	Commissioned asset values (Inputs tab)	Operating Expenditure (Inputs tab)	FNAR (schedule 1.4)	Commissioned asset values (schedule 2.2)	Operating expenditure (schedule 2.2)
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2020/21					
2021/22	+2128		102,035 (+66)	+2128	
2022/23	+5182		104,306 (+272)	+5182	
2023/24		+4	106,503 (+388)		+4
2024/25		+4	108,622 (+384)		+4

### ***Reopener requirements***

The following table sets out the requirements of the reopener provisions set out in the Input Methodologies:

<b>Input Item<sup>1</sup></b>	<b>Project Detail</b>
<i>Clause 4.5.5A</i>	
(a)-(d) Primary driver	Connection Capex
(e) Capex forecast - project included?	Confirmed, no provision included within DPP3
(f) Reasonableness of exclusion	- Customer project not confirmed at time of capex forecast finalisation. - Requirement for local distribution network connection not identified.
(g) Capital contribution to be received	- Nil contribution. - Confirmed, in accordance with standard Unison policy, which provides that Unison approaches capital contributions for large projects on a case-by-case basis.
(h) Material value of commissioned assets	Exceeds \$2M (\$7.3M) (contracted amounts attached)
(i) Connecting party confirmation	Written confirmation attached
(j)-(l) Growth, relocation, or combination	n/a
(m) Apportionment of additional revenue	Additional revenues will be recovered according to the contract with Contact Energy
<i>Clause 4.5.6</i>	
(4) Total forecast value less than \$30M	Confirmed (forecast commissioned value: \$7.3M)
(5) Net value calculation (a) capital contributions (b) previously provided amounts	Calculation basis confirmed: - contributions: nil - previous values: nil
<i>Clause 4.5.7</i>	
(3) Project amount reflects efficient costs	- contracted via competitive market engagement, by customer experienced in similar construction contracts.

### ***Closing comments***

We trust that the information provided in this letter is sufficient to progress to a formal application. We look forward to progressing it with you.

<sup>1</sup> Clause references: Subpart 5, Clause 4.5.5A - Electricity Distribution Services Input Methodologies Determination 2012 (Consolidated 20 May 2020)

Kind regards,

A handwritten signature in black ink, appearing to read 'NKS' followed by a stylized flourish.

Nathan Strong  
**GENERAL MANAGER COMMERCIAL**

## Letter from Contact Energy Confirming the Project



28<sup>th</sup> June 2021

The Commerce Commission  
PO Box 2351  
Wellington 6140

Dear Sir / Madam

**Subject: Tauhara Geothermal Power Station distribution connection**

Contact Energy confirms that it is committed to construction of the new Tauhara geothermal power station, near Taupo. This development includes construction of a new distribution connection to the Unison network.

Yours sincerely

**Tim Boyce**  
Programme Manager - Tauhara

