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1. **Introduction**

1. This submission from the Electricity Networks Association (ENA) is in response to the Commerce Commission’s DPP Process Paper. The submission covers the following topics:

   - Support for the proposed timeline and a related query as to what the “reference year(s)” will be for the reset.
   - Support for proposed engagement on information requests before they are issued.
   - Support for the use of question and answer sessions.
   - Request for a mechanism in the reset process to enable inclusion of costs not reported in the reference year(s) and new costs.
   - Query as to whether the results from the summary and analysis work-stream will feed into the reset of the DPP.
   - An update on the timeline and outputs of the three ENA working groups.

2. The ENA’s contact person for this submission is:

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1.1 **Support timeline, query reference year(s)**

3. The ENA supports the timeline for the DPP reset as set out in Table 1 of the DPP Process Paper. In particular the ENA supports the:

   - Review of a preliminary financial model early in the process;
   - Opportunity for comment on proposed information gathering requests prior to the requests being issued; and
   - Issuing of this process paper prior to the process commencing.

4. We do however query the timing of the draft determination in June 2014 and what implications that has for the reference year, or years, to be used in this reset. By June 2014, disclosures for the 2013/14 financial year will not have been made and therefore will not be available for inclusion in a draft determination. This timing raises the question as to what year, or years, the Commission will use as the reference year(s) in

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this reset. This is a critical issue and on which the ENA would appreciate clarity early in the process.

5. The ENA requests that the reference year, or years, to be used in the reset of the DPP be clarified when the preliminary version of the model is issued in November 2013.

1.2 Support engagement on information requests prior to issuing them

6. The Commission notes it expects to engage with representatives from the ENA when developing the format of any information requests. The ENA supports this approach and will ensure such processes are well resourced.

7. The ENA recommends that the scope of such engagement include the content as well as the format of any such requests, as usually there are choices as to how to best inform an issue (once the issue is clarified). There will also often be some forms of information that will be readily available to ENBs and some that are not, and having the opportunity to comment on how an information request is framed should expose the most practical options.

1.3 Support use of question and answer sessions

8. The DPP Process Paper indicates there will be question and answer sessions on the preliminary financial model and on the draft determination model. We support the use of question and answer sessions in this way, as our members find such sessions an efficient way to exchange views and to better understand the Commission’s perspective.

9. We encourage the Commission to use question and answer sessions more rather than less, and particularly where the Commission is seeking comment on issues that are best informed by a discussion, rather than by an exchange of documents. Examples could include running such sessions for commenting on proposed information requests, and on commenting on implementation issues that emerge in the “Issues paper for reset” due out in February/March 2014.

10. The DPP Process Paper invites comment on the timing of question and answer sessions and the amount of time that should be allowed for written responses (paragraph 11). We suggest the following sequence and timing in relation to the sessions on the financial models:

   • Provide two weeks from the issue of the model for written questions;
   • Hold the question and answer session as soon as possible after receipt of questions; and
   • Allow for one week after that session for written responses.

11. We consider a similar format could be used for other issues that are the subject of a question and answer session, with the possibility of reducing the initial two week period for issues that are less complex than the financial models.
1.4  Request for mechanism to include costs not in reference year(s) and new costs

12. In the Commission’s draft decision on Orion’s customised price-quality (CPP) application the claw-back calculations reflect a very different *ex post* allocation of catastrophic risk as between consumers and Orion compared to what all ENBs understood would be the case in such a CPP. Further, in that draft decision the Commission sets out a view that it intends to retain discretion in the future as to how it determines claw-back. Retaining discretion in this way undermines ENBs being able to rely on any particular level of *ex post* allocation of catastrophic risk to consumers in the future. This issue is outlined in the ENA submission on the draft decision.

13. The implication of this issue for the DPP reset is that ENBs are currently not compensated *ex ante* in their prices for potentially carrying this higher level of catastrophic risk. The ENA recommends in that submission that the Commission consider, outside the context of the Orion CPP application, the best way to allocate catastrophic risk and to reflect the results of that consideration into relevant input methodologies for the DPP, CPP and information disclosure requirements.

14. Until the Commission commits to such policy, the ENA requests that the Commission provides a mechanism in the reset process that ensures that ENBs are compensated adequately in the DPP for what appears to be the default position, which is that ENBs may be called upon *ex post* to bear all catastrophic risks to their businesses. ENBs may wish to bear this potential allocation of risk by some mix of extending their existing insurance cover, or self-insuring in some way (including by increasing the resilience of their networks). Either way there will be significant costs involved that are not currently reflected in DPP prices and not reported in the existing information disclosures. We expect a method will need to be developed to estimate the level of compensation required for ENBs to carry these additional potential risks.

1.5  Query whether summary and analysis work will feed into reset

15. The Commission issued on the same day as the DPP Process Paper a timetable paper on its work-stream on summary and analysis of disclosed information. We note there is no mention in either paper of linkages between these two work-streams. However, it seems possible that some of the results of the summary and analysis work may be used in the reset of the DPP. It would be useful if the Commission could clarify if it intends to use results from its summary and analysis work in the reset of the DPP reset, and if so, in what way.

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2  *Setting the 2014-19 customised price-quality path for Orion New Zealand Ltd, Draft decision, Commerce Commission, 14 August 2013.*

3  *Timetable paper – Summary and analysis of information disclosed by 29 electricity distributors in March 2013, Commerce Commission, 6 September 2013.*
1.6 **Timeline and outputs from ENA working groups**

The DPP Process Paper refers to three ENA working groups that are focused on technical matters related to the reset of the DPP. We wish to update the Commission on the timelines and planned outputs from each, as the intention of these projects is to inform the Commission’s DPP reset process.

**1.6.1 Working group on energy efficiency, demand-side management and reduction of electrical losses**

- Mid October 2013 – Phase 1 report, which will review options for improving energy efficiency in the long-term interests of consumers, including an international perspective; and what options, in particular, exist for electricity network businesses.
- Late November 2013 – Draft Phase 2 report, which will look at the market and regulatory framework in the context of the measures discussed in Phase 1, including whether any barriers exist.
- Mid January 2014 – Final Phase 2 report, which will incorporate phases 1 & 2 into one report.

**1.6.2 Working group on quality of service and incentives**

- 6 November 2013 – Seminar on quality issues with speakers from the UK and Australia.
- End of November 2013 – Draft report on the results and recommendations from the working group.

**1.6.3 Working group on forecasting approaches for key variables required to reset DPP paths**

- End of February 2014 – Progress reports on:
  - Possible improvements in data and forecasting approaches to be used in resetting the DPP.
  - Forecasting capital expenditure requirements based on ‘drivers’.
  - Using EDBs' forecasts as set out in their asset management plans for use in DPP resets.
- End of March 2014 – Report on recommendations on way forward for each of the above three areas.