

# Customised price-quality paths – time for some fine-tuning?

## Input methodologies review forum

30 July 2015

John Groot



# Our panel

- **Richard Fletcher** – Powerco
- **Greg Skelton** – Wellington Electricity
- **Jelle Sjoerdsma** – MDL
- **Ralph Matthes** – MEUG
- **Richard Hale** – MGUG



# Purpose of this session

We are in the problem definition phase of the IM review

Today, we wish to:

- Better understand the obstacles faced by suppliers in applying for a CPP
- Seek views on the topics and problems that should be addressed for the CPP IM review
- Update interested persons on our decision to fast-track consideration of proposed changes to certain CPP requirements



# Customised Price-Quality Paths

A necessary alternative to the DPP ...

(but which may need some tweaks to improve attractiveness and cost effectiveness)



# Customised Price-Quality Paths

A necessary alternative to the DPP ....

(but which may need some tweaks to improve attractiveness

OR

Something that is too much, too big, too hard?



# Customised Price-Quality Paths

## Commission's view:

- A vital and valuable alternative to the DPPs ...
- ... which may need some tweaks to improve attractiveness and cost effectiveness
- Always anticipated that we would review the requirements in light of experience



# The importance of CPPs



- New Zealand's DPP/ CPP regime is unique
- The DPP is a low-cost approach, which cannot fit all circumstances
- CPPs are a vital feature of our regime
- Allows a price-quality path to meet a supplier's specific circumstance
- Offer benefits to consumers (and suppliers)

# The CPP option – the state of play



- To date, only one CPP has been sought... required by a catastrophic event
- Now we have a re-opener for a catastrophic event



# The CPP option – the state of play



- Why aren't there more CPP applications?
  - Uncertainty as regime settles down (merits review, DPP reset)?
  - The differences between the DPP and CPP may be smaller in practice than policy makers anticipated?
  - Preparing a CPP too hard and complex?
  - DPP too generous?
  - Other factors?

# The CPP option – the state of play

- Feedback after Orion’s application revealed a number of issues for further consideration
- To be addressed as part of this review
- We are keen to promote the CPP option
- We would like suppliers to apply for a CPP when it promotes the long-term benefit of consumers
- Today’s sessions look at potential obstacles to CPP applications



# Outline for this morning's session



## The current session will:

- Outline the Commission's decision to fast-track consideration of certain aspects of the IMs relating to CPP applications
- Discuss the substantive obstacles to suppliers considering a CPP, including:
  - Whether we should align the WACC for DPP and CPPs
  - Whether we should have limited scope or single issue CPPs
- Provide an opportunity for questions and comments from the floor

# Outline for this morning's session

## The next session will cover:

- Issues relating to process and information requirements



# Fast tracking consideration of certain obstacles to CPPs



Last week we decided to consider making certain amendments to CPP requirements through a fast track process.

- Fast track desirable for potential applications in 2016
- There are two limbs to this fast track process:
  - Certain proposed changes to CPP information requirements (limb 1)
  - The alignment of the DPP/CPP WACC issue (limb 2).

# Fast track: Indicative process for CPPs



## Announcing our decision to fast track

- Advance notification of our decision – 21 July.
- Amended notice of intention and process update paper to be published shortly after this forum.
- Covers EDBs and GPBs

## Process for reaching a decision on DPP/CPW WACC (limb 2)

- Draft decision due early November 2015.
  - Anticipate 4 weeks for submissions and 2 weeks for cross-submissions before Christmas.
- Final decision end February 2016.
- We consider the timeframes are feasible.

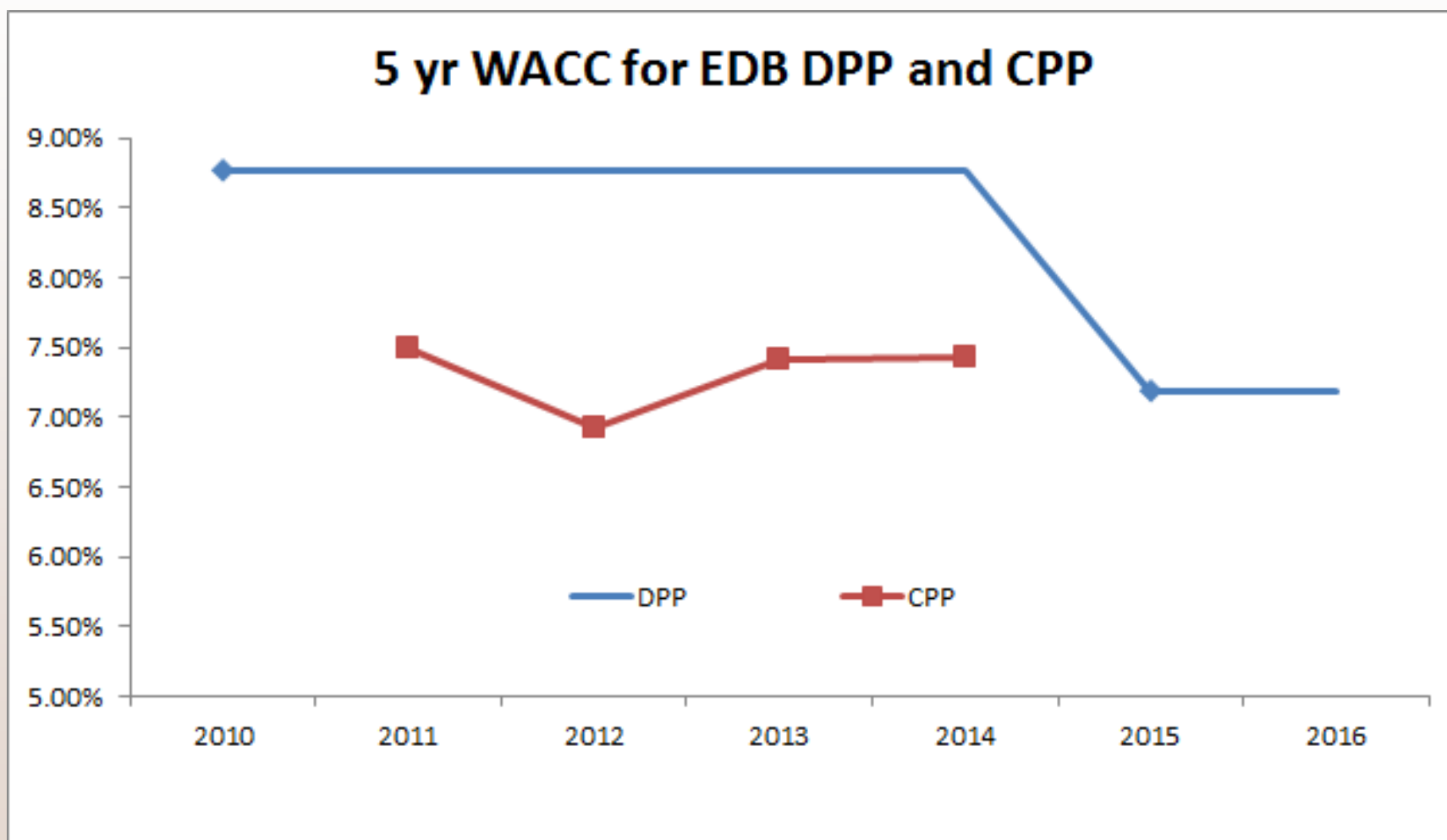
# Fast track: alignment of the DPP/CPP WACC issue



The WACC applicable to CPPs will differ from that applicable under the DPP as market interest rates change over time.

This difference (or misalignment) may affect the incentives on suppliers on whether or not to seek a CPP.

# Fast track: alignment of the DPP/ CPP WACC issue





# Rationale for fast tracking the alignment of the DPP/CPP WACC issue

- This lower WACC has been identified as a key barrier for potential CPP applications in 2016 (soon after IM review is proposed to conclude)
- The current (original) policy was that the WACC for DPP and CPP can differ
- The question we are asking now is whether the DPP and CPP WACCs should be aligned
- The fast track process will allow an amendment, if the Commission decides to do so, in time for any CPP application in 2016

# Fast track rationale

- Considerations likely to include:
  - estimate of the inflation rate is used in the CPP to index the RAB
  - whether the CPP WACC should still be used for new investment proposed in the CPP
  - if the CPP should be updated once the WACC for the subsequent DPP period is determined

# The alignment of the DPP/CPP WACC issue



## Powerco's perspective

- Richard Fletcher



# Panel discussion

- **Richard Fletcher** – Powerco
- **Greg Skelton** – Wellington Electricity
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# Panel discussion

Views on what we have heard from Powerco on the DPP/CPP WACC

Views on other obstacles to seeking a CPP:

- WELL (**Greg**)
- MDL (**Jelle**)



# Q & A from the floor

Any comments on views you have heard?

Will it be more used in future now regime is more settled?

Any questions and other perspectives on why CPP option is not more used?

