

8 June 2020

Open letter

Dear stakeholder

Feedback on processes for resetting price-quality paths

In November 2019, we published our final decisions on the default price-quality paths (DPPs) set to apply to non-exempt electricity distributors from 1 April 2020 (except for those on customised price-quality paths) and the individual price-quality path (IPP) for Transpower. Our decisions included the direct resetting of the price-quality paths, as well as some associated amendments to the input methodologies (IMs), which are the underlying rules and processes for our regulations.

We understand that the process to get to these decisions has been time-consuming for stakeholders and we greatly appreciate the input that we received throughout the process, and the engagement from a broader than usual group of stakeholders. We are now seeking your views on those processes to help improve our future decision-making processes.

Ongoing improvement in regulatory processes

We seek to make ongoing improvements to our regulatory processes in addition to making improvements to the regulation itself, and we consider that the two go hand-in-hand. Seeking feedback from stakeholders is an important part of helping us improve our processes, particularly how we undertake consultation on our decisions.

For these decisions on the price-quality paths, we amended our processes from previous resets in response to feedback. For example, we provided longer consultation timeframes when the electricity industry was busy with other processes involving consultation like the consultation on the Electricity Authority's transmission pricing guidelines and MBIE's electricity price review.

We also adapted the processes when required for emergent issues, like the issue of how successive interruptions are treated by electricity distribution businesses and the issue of the incremental rolling incentive scheme (IRIS) baseline adjustment for the IPP.

Providing your feedback

We welcome all feedback on our processes, but are not asking for views on the substance of our decisions. The attachment highlights the processes we undertook. However, feedback on any aspect of process is welcome.

Please let us have your views by Friday 3 July. Responses should be addressed to:

Dane Gunnell (Manager, Price-Quality Regulation)

c/o regulation.branch@comcom.govt.nz

We appreciate that the COVID-19 pandemic has put increased pressure on many of you, and so we deferred this request for feedback until now when the immediate pandemic response is completed. Please indicate to us if you would like to respond but are unable to within the specified timeframe due to your current circumstances.

We intend to publish the feedback that we receive, unless there is a clear and explicit request to not publish it due to confidentiality or commercial sensitivity. We will consider any such requests on their merits.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'D Gunnell', followed by a period.

Dane Gunnell

Encl.

Attachment A—Processes we used for setting DPPs

This attachment summarises key aspects of the process and publications we used for setting the DPPs for electricity distribution businesses for 2020-25, which we are seeking feedback on.

Throughout the process we increased our use of workshops and provided the ability for stakeholders to attend these virtually.

We also provided additional numerical models for demonstration purposes and for use by electricity distribution businesses.

As we have done in the past, we undertook a parallel process of IM amendments to enable the reset of default price-quality paths. For this reset, we included a specific workstream for IM amendments in response to the change in accounting standards of the treatment of operating leases.

For this reset we sought to improve our communication of the impact of the reset, in terms of changes in prices in revenue. This included highlighting the primary drivers of the changes.

The table overleaf summarises the main steps of the process we used to reset the default price-quality path, with a focus on the consultation with stakeholders.

Phase	Key aspects
Commencement of process and consultation <i>June to November 2018</i>	<ul style="list-style-type: none"> • Feedback sought on 2015-20 DPP reset (2015) • Process update papers • Knowledge sharing workshop • Accelerated depreciation amendment
Issues paper and submissions <i>November 2018 to January 2019</i>	<ul style="list-style-type: none"> • Issues paper • Early version of the financial model • Amendment on the limit on the increase in forecast revenue from prices • Initial section 53ZD request • Accelerated depreciation application
Draft decision and submissions <i>February to August 2019</i>	<ul style="list-style-type: none"> • Request for feedback on Vector's accelerated depreciation application • Draft decisions • Draft IM amendments (and a parallel process of amendments for operating leases published later) • Financial model and additional models • Final section 53ZD request • Process for extending the section 53ZD request • Workshops on quality, innovation, and uncertainty
Updated draft models, targeted policy consultation and submissions <i>August 2019 to October 2019</i>	<ul style="list-style-type: none"> • Targeted policy consultation, including additional workshop on quality of supply • Additional 53ZD request on spur assets • Consultation on the recording and treatment of successive interruptions for SAIFI • Correspondence on WACC estimate and CPI
Final decision <i>November 2019</i>	<ul style="list-style-type: none"> • Determination • Reasons paper • Financial model • Supporting models • Analyst briefing • Charts for media
After final decision <i>January to March 2020</i>	<ul style="list-style-type: none"> • Discount error correction • Reliability (SAIDI and SAIFI) demonstration model

Attachment B—Process for setting Transpower’s IPP

This attachment summarises key aspects of the process and publications we used in resetting Transpower’s IPP for 2020-25, which we would appreciate feedback on.

A particular feature of our process for the 2020 reset was the use of a verifier. The role of the verifier was to evaluate whether Transpower’s proposed base capex allowance, proposed opex allowance, proposed grid output measures, and key assumptions were consistent with an expenditure outcome which represents the efficient costs of a prudent supplier.

The table below summarises the main steps of the process we used to reset the IPP, with a focus on our communication and consultation with stakeholders.

Phase	Key aspects
Commencement of process and consultation <i>May to November 2018</i>	<ul style="list-style-type: none"> • Appointment of independent verifier • Information requested from Transpower • Process, framework, and approach paper • Transpower’s proposal • Verifier’s report
Issues paper and submissions <i>February to April 2019</i>	<ul style="list-style-type: none"> • Issues paper • Related correspondence
Draft decision and submissions <i>May to August 2019</i>	<ul style="list-style-type: none"> • Draft decision reasons paper • Draft determination • EMCa report on ICT expenditure • Draft decision on IRIS baseline adjustment • Draft decision on IM amendments • Draft decision on further IM amendments
Decisions, revised draft determination, and submissions <i>August to September 2019</i>	<ul style="list-style-type: none"> • Decisions and reasons paper • Revised draft determination • Supplementary EMCa report • Draft information request notices
Final determination <i>November 2019</i>	<ul style="list-style-type: none"> • Final determination • Companion paper • IRIS baseline adjustment model • Information request notices • Final decision on IM amendments