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20 September 2013

John McLaren  
Chief Advisor  
Regulation Branch  
Commerce Commission  
WELLINGTON

Sent by email to: [regulation.branch@comcom.govt.nz](mailto:regulation.branch@comcom.govt.nz)

Dear John,

### **Proposed process – default price-quality paths from 2015**

1. Vector welcomes the opportunity to make a submission to the Commerce Commission (Commission) on its paper, *Proposed process – default price-quality paths from 2015* (the paper), dated 6 September 2013. No part of Vector's submission is confidential and we are happy for it to be publicly released.
2. Vector's contact person for this submission is:

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### **General comments**

3. Vector appreciates the Commission's consultation on the 2015 default price-quality path (DPP) reset process. The reset is an important decision for the industry. The industry needs to have confidence that the Commission's decision-making process is robust, well considered, and includes appropriate engagement with interested and affected parties.
4. Vector supports the Commission's early engagement on the financial model, explicit provision for consultation on a revised draft Determination, the question and answer sessions and advance notice of indicative dates of the Commission's work plan – including advanced notice of the work plan for the summary and analysis of

information disclosed. Vector would like to see that the Commission keeps the industry up-to-date with any changes to the indicative dates and work plan.

5. Vector considers that the early provision of the financial model is a very positive step in the reset process, and will help provide more certainty of regulatory outcomes than otherwise. We **request** that the Commission release supplementary information that provides some narrative / commentary on how the model works, and fully documents all changes from the versions used in the previous resets, at the same time as the model is released. This will help further our understanding of the model, particularly given its complexity, and to pre-empt questions interested parties might otherwise have.
6. Vector is also pleased that question and answer sessions and workshops are scheduled. These can be a valuable resource for helping parties to understand the Commission's decisions under the DPP and for testing key assumptions. Based on past experience with the Commission's workshops, and the type and range of questions that tend to be asked, Vector believes it would be useful if the Commission was able to answer both technical and policy questions at these workshops.
7. However, Vector has some concerns regarding the time period for consultations. The Issues Paper and draft Determination are only given a 4 week consultation period. It is likely that both these papers will include a range of substantive matters that will need proper consideration in order to be constructively addressed. Vector **recommends** the Commission provide an 8 week consultation period for substantive papers, such as the Issues Paper and draft Determination.
8. We reiterate the comments we have previously made: the consultation time-frames for the initial resets were too tight and this had a negative impact on the quality of submissions and the level of constructive feedback that was possible. We do not believe the Commission should face the same time constraints for the second resets, and therefore the Commission should be able to allow for longer consultation periods.<sup>1</sup>
9. Vector is concerned with the timing of the July information request, as at that point in time electricity distribution businesses will also be preparing their information

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<sup>1</sup>Paragraph 41(c), Vector, Feedback on the process for setting default price-quality paths, 24 May 2013.

disclosures and resourcing will be very limited. Vector has raised similar concerns in the past with regards to the Commission's timing of the 53ZD requests.

10. Vector takes the health and safety of staff very seriously. Vector asks that the Commission consider phasing its work in a way that recognises that electricity and gas distribution businesses, and gas transmission businesses do not employ staff to meet irregular, and large, peaks in work load. Information requests are costly and resource intensive, and should not be imposed unless fully justified.<sup>2</sup>
12. If the Commission needs to request information in July, Vector **recommends** it consider accompanying this request with an extension on information disclosures. Notice of any such extension should also be provided well in advance to provide time to rearrange audits. Vector also **recommends** that the Commission seeks submissions on draft information requests prior to finalising them. This will help ensure that the requested information will be appropriately targeted and meets its purpose.

#### **Issues Vector would like to see addressed in the reset**

14. The paper does not indicate what matters the Issues Paper will address. It would be useful if the Commission could provide further detail on what issues it intends to discuss.
15. As Vector has previously indicated in submissions,<sup>3</sup> we believe that an adoption of improved efficiency incentive mechanisms – such as IRIS – can and should be incorporated into the next reset, and should be seen as a priority. Furthermore, since the IRIS is already applied in relation to Transpower, the mechanism already exists as an input methodology, and the Commission is considering its adoption as part of Orion's customised default price-quality path (CPP), it should be a simple matter to implement it under the DPP as part of the next reset.
16. Vector's Staggered Starting Price Adjustment proposal is also an example of an efficiency mechanism that could be readily adopted with minimal difficulty. The Commission would not require any additional data from regulated suppliers to

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<sup>2</sup> Vector response on the Commerce Commission's letter seeking "Feedback on the process for setting default price-quality paths", dated 23 April 2013.

<sup>3</sup> See: Vector's submission on the Commerce Commission's paper, *Commerce Act Part 4 Funding Review*, dated 19 July 2013, for example.

implement a stagger. The main thing the Commission would need to do is make a judgement about the sharing “tilt”.<sup>4</sup>

17. Vector is accordingly fully supportive of the Commission’s parallel work-stream on expenditure incentives and considers that it will be an important component of the reset determinations.
18. Vector also considers that the work currently underway by the Electricity Network Association’s (ENA) Working Groups should be incorporated into the reset determinations. In our view, the issues currently being examined by those Working Groups should be considered a priority, and at a minimum, discussed in the Issues Paper.
19. The Issues Paper will undoubtedly consider key inputs to the process of resetting the DPP (e.g. forecasting, quality standards, incentive mechanisms and approach to starting prices). In addition, Vector **recommends** that the Issues Paper should also discuss:
  - Whether the Part 4 purpose would be better achieved through setting a price cap or a revenue cap for electricity distribution businesses.
  - Appropriate treatment of insurance costs to ensure suppliers are able to recover insurance costs in the DPP that reflect their risk profile (i.e. self-insurance premiums to provide ex ante recovery of the costs of catastrophic events), which the Orion CPP process has demonstrated to be necessary.
  - Application of a wash-up for under / over-recovery of revenue. At present the price-cap provisions for Transpower allow for wash-up, but the DPP provisions for EDBs do not.

### **Concluding comments**

20. Vector is mindful of the tight time-frame the Commission was operating under when it undertook its first resets under Part 4 of the Commerce Act, and this had implications for what the Commission could realistically achieve. The second reset, starting with the Commission’s work on incentives, the development of an Issues Paper and the input from the ENA, provides an opportunity for the Commission to

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<sup>4</sup> See: Vector’s report to the Commerce Commission, “Efficiency impacts of Starting Price Adjustments – Stylised Example,” dated 19 December 2001.

evolve the operation of Part 4 such that there is more certainty and predictability about how it will be operated and how the objectives of Part 4 are better achieved.

Kind regards

A handwritten signature in blue ink that reads "B. Girdwood". The signature is written in a cursive, flowing style.

Bruce Girdwood

**Regulatory Affairs Manager**