

4 March 2014

Electricity distributors,  
Gas pipeline businesses,  
Consumers and representatives,  
and any other interested parties

Dear stakeholder

### **Feedback on setting Orion's customised price-quality path**

1. This letter seeks your feedback on the approach and process we followed for setting the customised price-quality path for Orion New Zealand Limited for the five years from 1 April 2014 to 31 March 2019.
2. Orion's application for a customised price-quality path was prompted by the Canterbury earthquakes in 2010 and 2011. We concluded consultation and published our final decisions for Orion on 29 November 2013.
3. This was the first time that we had been asked to set a customised price-quality path under Part 4 of the Commerce Act. Orion's application was put together in a short time frame and in difficult circumstances arising from the catastrophic events in Canterbury.
4. The Attachment to this letter summarises the steps involved in the process we followed.
5. Your feedback will help us understand what worked well, what could be improved, and how any improvements could be made. These lessons will be used to build on our processes for considering future customised price-quality path proposals.
6. We are not seeking views on the particular merits of any decisions we made in setting Orion's customised price-quality path. Our reasons for the decisions we made are set out in our final reasons paper. These decisions were informed by consultation with interested parties and are now finalised.

### **Your feedback**

7. We welcome feedback on our approach or process to setting the customised price-quality path for Orion.
8. This feedback may include views on the suitability of the input methodologies that apply in respect of rules or processes for setting a customised price-quality path.

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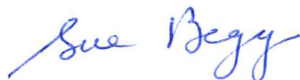
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9. Further detail on the areas that we are particularly interested in receiving views on are set out in the Attachment to this letter.
10. We invite you to provide any written feedback by Monday, 14 April 2014. Please address your responses to:  
  
Karen Murray (Manager, Regulation Branch)  
c/o regulation.branch@comcom.govt.nz
11. Responses should be provided in a file format suitable for word processing, rather than the PDF file format. We will publish all written submissions on our website.
12. If you would prefer to provide your feedback verbally then Commission staff would be happy to meet with you or arrange a teleconference. If you would like to do so, then please contact Karen Murray on 04 924 3823, or [karen.murray@comcom.govt.nz](mailto:karen.murray@comcom.govt.nz) by 31 March 2014.
13. We intend to publish a summary of the feedback we receive and our next steps for addressing the feedback once our review is complete.

Yours sincerely,



Sue Begg  
Deputy Chair  
Commerce Commission

## **Attachment: Overview of process**

- A1. An outline of the process we followed for setting the customised price-quality path for Orion New Zealand Limited is contained in Table A1 at the end of this attachment.
- A2. Specific areas that we are interested in feedback on are set out in the sections below. These areas are intended as a guide; feedback on other areas is welcome.

### *Pre-application engagement with consumers and the Commission*

- A3. We welcome feedback on whether the requirement for Orion to undertake a consultation process with interested persons prior to submitting an application for a customised price-quality path was helpful. For example, whether the process allowed interested persons to understand the proposal and put forward their views, and whether the likely effect of the proposal could be understood from the information that Orion provided.
- A4. We are also interested in feedback on whether the way we engaged with Orion prior to the application for a customised price-quality path was helpful. We are interested in how such engagement with intending applicants should be undertaken in the future, including whether a standardised approach should be developed.

### *Customised price-quality path application*

- A5. We welcome feedback on the process for making an application for a customised price-quality path. This includes the extent and the relevance of the information required to be provided, and assurance processes performed by the applicant.
- A6. We would like the views of interested parties on whether Orion's application was accessible and informative. For instance, whether the application allowed the customised price-quality path proposal to be understood in sufficient detail, or whether too much detail was provided. If aspects of the application were not satisfactory then we would like to hear the ways that future applications could be improved.

### *Our approach to expenditure evaluation*

- A7. We would like your views on how we approached our evaluation of Orion's proposed capital expenditure and operating expenditure levels. We undertook work additional to that performed by the Verifier. We would like to hear your views on the value of the verifier process and how the evaluation process might be improved in future.

### *Financial models*

- A8. The customised price-quality path process involved a lot of financial data and spread sheet models which were necessary to calculate the maximum prices for Orion. Orion produced its own models which accompanied its application. We relied on these models for some aspects of our work but also produced our own financial models during our



consultation. Your feedback is welcome on the way that financial models were used in our consultation process and how well they were presented and understood.

#### *Use of experts*

- A9. Expert advisors assisted us in reviewing proposed expenditure levels and in determining the claw-back amount that should apply as a result of the Canterbury earthquakes. We published the experts' reports with our draft and final decisions. We are interested in your feedback on that process.

#### *Our consultation with interested persons*

- A10. We would also like to know whether interested persons felt they could engage with our processes. For example, we would be interested in your views on:
- A10.1 how clear our documents were, particularly those that explained the underlying rationale for our draft and final decisions;
  - A10.2 whether there were enough opportunities for you to put forward your views on the process;
  - A10.3 the length of the timelines for responses to consultations and information requests; and
  - A10.4 whether we were available when you had queries or concerns.
- A11. We are interested in actions we could take to make it easier for interested persons to engage in our consultation processes in the future.

#### *Suitability of input methodologies*

- A12. We are interested in your feedback on the input methodologies that apply in respect of setting a customised price-quality path. For instance, we would like to hear:
- A12.1 how the input methodologies might be improved to produce better decisions or outcomes for customised price-quality path proposals in the future; and
  - A12.2 whether the input methodologies cater adequately for setting a customised price-quality path in the circumstances of a catastrophic event.
- A13. As part of the customised price-quality path decision we set we varied some of the input methodologies with the agreement of Orion. We would like to hear whether that process worked well, including from the perspective of other interested parties.

#### *Process updates*

- A14. We would like to hear your thoughts on the process updates that we issued. These were issued to keep interested parties informed of our process and any major changes in that process. We would like to know whether you found these updates helpful, and if the frequency and content was appropriate.

*Draft and final decision briefings*

- A15. We would like to know your views on the format and timing of our briefings for the draft and final decisions. We held these sessions on the mornings that our draft and final decisions were released. They were intended to give financial analysts, industry participants, media and consumers an early overview of our decisions, and a chance to ask any initial questions.
- A16. We would also be interested to know whether holding the briefings in Christchurch was useful given that Orion's proposal largely affected persons in Canterbury.

**Table A1: Key dates in our process for Orion's customised price-quality path**

Date	Process step
19 February 2013	Orion's customised price-quality path application received
19 April 2013	Invitation to have your say on Orion's proposal to change its prices and quality standards: Decision process and consideration of submissions
1 May 2013	Invitation to have your say on Orion's proposal to change its prices and quality standards: Issues to explore and consider
30 May 2013	Submissions received on Orion's proposal
5 June 2013	Orion's customised price-quality path proposal: Release of expert reports for public consultation
28 June 2013	Submissions received on expert reports
14 August 2013	Setting the 2014-2019 customised price quality path for Orion New Zealand Limited: Draft decision
14 August 2013	Draft Orion customised price-quality path model
14 August 2013	Expert reports released with draft decision
14 August 2013	Briefing on Orion draft decision
4 September 2013	Orion New Zealand Limited Customised Price-Quality Path Determination 2013: Draft determination
4 September 2013	Companion paper on the draft determination and compliance requirements for Orion's 2014-2019 customised price-quality path
9 September 2013	Orion CPP evaluation process: update on process
9 September 2013	Response to Orion request for information
20 September 2013	Submissions received on Orion draft decision and draft determination
9 October 2013	Section 53ZD notice to supply information – 2013 values for commissioned assets, and background analysis on points made in Orion's submission
11 October 2013	Cross submissions received on Orion draft decision and draft determination

<b>Date</b>	<b>Process step</b>
30 October 2013	Consultation on proposed approach to the specification of controllable opex
12 November 2013	Submission received on consultation on proposed approach to the specification of controllable opex
29 November 2013	Final decision on setting the customised price-quality path of Orion New Zealand Limited
29 November 2013	Final Orion customised price-quality path model
29 November 2013	Expert reports released with final decision
29 November 2013	Briefing on Orion final decision
19 December 2013	Response to Orion request for information

A17. The documents in Table 1 can be found at:

<http://www.comcom.govt.nz/regulated-industries/electricity/cpp/orion-cpp/>