

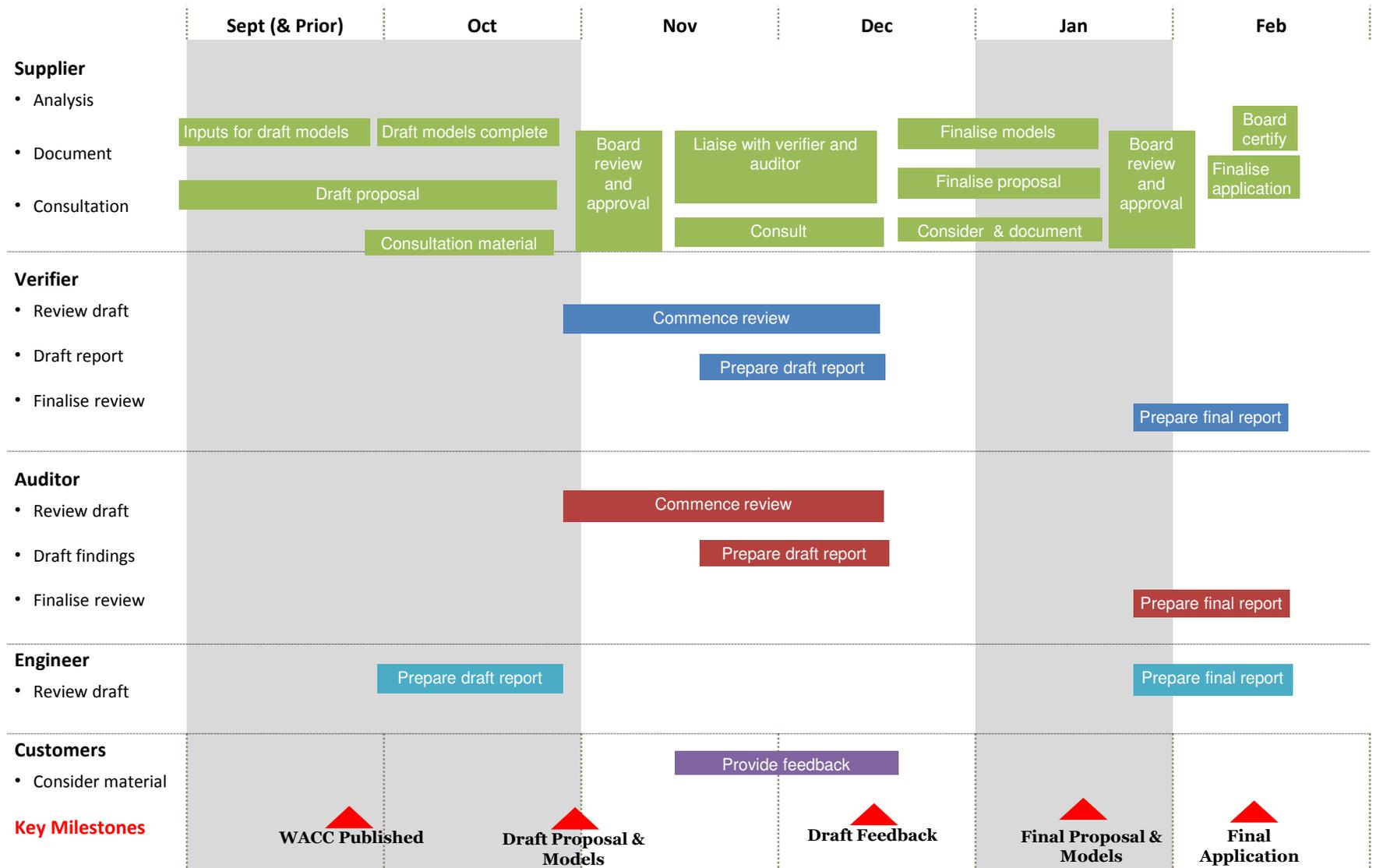
IM Review

Commerce Commission IM forum
29 - 30 July 2015

CPP issues

- Verification
- Customer Consultation
- Information required
- CPP following a catastrophic event

CPP application timeline



Verifier

- Engagement process onerous:
 - Preparing RFP, interviewing, selecting, developing and agreeing tripartite deed for a verifier took considerable time
 - Limited pool of potential verifiers
 - Verifiers familiarity with CPP IM's could be an issue
- More significant issue was the limited verifier involvement after application submitted
 - Information that the verifier has gathered and the explanations given risk being lost or must be repeated

Verifier cont.

- IM's require verifier must have a full proposal before it can start to verify
 - Compresses an already short time frame
 - Introduces unnecessary time delays
 - Does the verifier need to see the entire proposal
- Large amount of information for the verifier to review
 - Could be simplified if the verifier focused on topics directly relevant to the CPP expenditure objective
 - Does the verifier need to opine on alternative depreciation or consider the price path

Verifier cont.

- Verifier value is that it helps ensure that proposal is robust and meets the IMs
 - Reduces possibility that proposal is non compliant
 - Verifier is well positioned to advise the Commission post application
 - Reduces unnecessary duplication in explanation
- Verifier and Independent Engineer's roles could be combined

Consumer consultation IM 5.5.1

- IM 5.5.1 requirement is to notify
 - At least 40 Working days before CPP proposal is submitted EDB to **adequately notify customers:**
 - Intent to make a CPP proposal
 - Effect on revenue and quality
 - Process for making submissions to the EDB
 - Where and how further information may be obtained
 - Their opportunity to participate in the consultation period required by the Commission

Customer Consultation

- Commission's Draft Decision:
 - Orion's consultation on its proposal did not explain to consumers that Orion could have chosen lower opex and capex in the CPP period (for example by deferring some opex and capex to later years).
 - It did not explain to consumers what impact this would have had on the service consumers could expect to receive and on the price they would pay.
 - Such information would have enabled consumers to provide better feedback which demonstrated they supported Orion's proposal, the levels of service offered, and the cost of this; or whether they preferred lower expenditure, prices, and service levels.
 - Our input methodologies **do not** require customised price-quality path applicants to undertake consultation in this way.

Information required

- Key information lost:
 - The IMs required Orion to provide more information than necessary to assess an application
 - Lots of duplication
 - Information in other sources (AMP) that we had to repeat in proposal
 - Schedule E templates are very prescriptive
 - Recasting our information into these templates and the proposal content was very onerous

Information required

- Models provide significant information (inputs,calcs, outputs)
- Information in models should not need to be replicated in the proposal document
- Schedule D is poorly drafted – repetitive, not targeted to key information => significant compliance cost
- The selection of additional 10 project descriptions required all projects (77) to be comprehensively documented against the IMs

Our view of the core information which is relevant to the **Proposal** is:

- Why the application is being made
- An AMP, including sufficient project/programme information
- Price path models, consistent with the IMs, plus project/programme spreadsheet schedules
- A quality standard proposal (possibly including models)
- Customer consultation (with scope perhaps previously set out and agreed between applicant and Commission).

CPP following a Catastrophic event

- We don't believe the CPP was appropriate for our situation given:
 - The pressure it placed on staff who at the time were critical to the earthquake response and recovery (which takes a long time)
 - The uncertainty about the medium and long term (demand, expenditure, service requirements, resourcing, network performance)
 - Two year window is too short under these circumstances
 - Too much focus on elements that were not impacted by the event
- IM changes now provide that a DPP can be reopened following a catastrophic event, this may be useful.
- CPP could follow at a later stage