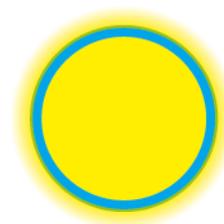


28 August 2017

Matthew Lewer
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Wellington

By email: regulation.branch@comcom.govt.nz

POWERCO



Dear Matthew

RE: Feedback on process for resetting default price-quality paths for gas pipeline businesses

Powerco welcomes the opportunity to comment on the process the Commerce Commission (the Commission) undertook to reset the default price-quality paths (DPP) for gas pipeline businesses (GPBs).

General comments

Powerco acknowledges the extensive process undertaken by the Commission to reset the DPP Determinations (the Determination) for GPBs in May 2017. We consider that, in general, the process was robust, helpful and worked well.

This process considered many aspects and refinements to the Determinations. The Commission's willingness to engage early, hold several workshops and issue clarifying process documents supported this process and ensured GPBs were reasonably well informed.

The development and refinement of a new expenditure forecasting approach exemplifies the benefits of engaging with suppliers as early as possible, working with them to develop a practical solution and clarifying issues when required. Whilst this new approach represents a positive step forward, we consider that further improvements should continue to be sought.

We welcome the Commission's willingness to consider submissions and refine its proposals where substantive issues were raised. The question and answer sessions in particular were useful means by which to gather all interested parties in a discussion forum.

Engaging early and running the DPP reset alongside the Input Methodology (IM) review led to a long and involved process. This was clearly defined and amended when required. We found this to be particularly useful in planning our own resourcing requirements. Our submission provides feedback and recommendations on the key features of the Commission's process.

The level of engagement was appropriate

This is only the second DPP and significant issues were raised, considered and in many instances implemented. This included—

- Introducing a refined methodology for forecasting expenditure
- Introducing a refined methodology for determining constant price revenue growth
- considering the form of control for GPBs
- considering options for the quality path

As a matter of principle, any significant changes to DPP regulation should be accompanied by timely and effective communication between interested parties. We therefore appreciated the Commission's proactive engagement during the Gas DPP reset and IM review processes.

We found the Commission's additional update on its expenditure forecasting framework in early November particularly useful. This update was particularly useful as it clarified the Commission's intent and alleviated a number of concerns GPBs had about the proposed expenditure forecasting methodology.

The flexibility to add additional publications and consultations is something Powerco supports and recommends the Commission to continue to allow for during future reset processes.

The workshops and Q&A sessions were useful in explaining the Commission's evolving position and views

We found the Commission's workshops and question and answer (Q&A) sessions on Constant Price Revenue Growth and Quality of Service to be particularly useful in explaining the Commission's evolving position and views. The forums provided an opportunity for open discussion and subsequent consultation papers indicated the Commission listened to feedback presented in these industry forums.

During the workshops and the Q&A sessions there was some initial frustration when the Commission personnel did not appear to have a comprehensive understanding of the overall gas industry or else did not have a detailed understanding of developments in parallel consultations. For instance, it would have been useful to have in attendance staff members who could answer questions on the IM review as it pertained to the gas DPP reset.¹

Powerco recommendation #1:

We consider that there may be value in holding separate Q&A sessions for transmission and distribution businesses in the future. Distribution businesses have a different form of control and now a different quality path. The quality of service Q&A session is an example where separate sessions for transmission and distribution may be appropriate in the future to ensure focused dialogue for both transmission and distribution businesses.. Separation may also be appropriate in instances where the combined content required to be covered is too large for a single collective session.

Powerco recommendation #2:

We recommend the Commission include staff members in the Q&A sessions that have a comprehensive understanding of the gas industry, and of, any interdependent and parallel consultations.

Pilot schemes have a place in the DPP reset process

Powerco supports the concept of the Commission engaging directly with suppliers whenever a change in approach is sought. This may be in the form of a technical reference group or in this case the use of a pilot scheme. The early direction received from industry participants should

¹ We note that the Commission responded positively to feedback received from these initial meetings / workshops and any initial frustrations were subsequently resolved.

enhance the quality of the Commission's intended changes, resulting in a smoother, more efficient and more effective consultation process.

Powerco was pleased to be invited to participate in the Commission's expenditure forecasting pilot scheme and would happily take part in a similar scheme again

One of our learnings from participating in the pilot scheme is that the scope and purpose of the scheme is clearly defined and disclosed at the beginning of the process. This alleviates the risk of confusion or misunderstanding as the process develops.

Powerco recommendation #3:

The Commission should work collaboratively with industry participants to develop any new approach. Where a pilot scheme is used the purpose or scope of the pilot scheme should be disclosed to stakeholders and agreed with the industry participants.

The new expenditure forecasting approach is a positive step forward

Powerco supports the Commission's expenditure forecasting approach that recognises the low cost nature of a DPP and the relative simplicity of the gas distribution pipelines sector. The use of supplier's own AMP forecasts promotes a more forward looking perspective that helps ensure expenditure allowances are appropriate for the future needs of a business.

In our opinion the key considerations the Commission used to guide its work were comprehensive and appropriate.

Any changes to the regulatory regime are ultimately guided by the Part 4 purpose, which is to promote the long term benefit of consumers. We are confident the Commission's new approach encourages the achievement of this purpose. The use of supplier AMP forecasts and a robust assessment framework ensures supplier's allowances are both prudent and efficient.

We have focussed our comments on two areas of particular interest to us:

- The process of requesting supporting documentation for supplier expenditure
- Expenditure forecasting models and reports.

Requests for supporting documentation

In general, the process for requesting supporting documentation from suppliers was clear and effective. Once the request was received by suppliers it was unclear what process we should follow if we had questions. Further, this was our first experience of the process and it was difficult to determine if we were providing a sufficient level of information. Communication during and after the supplier information request period could be improved to ensure the best information is supplied.

Given the efforts made by the Commission to follow the process they had outlined, we were surprised with the early Business As Usual (BAU) variance tests and AMP scrutiny checks for GasNet. This occurred before stakeholder submissions on the DPP policy paper had been submitted and therefore prior to the completion of the consultation process. In principle we would expect the Commission would follow the consultation process it had set.

Expenditure forecasting models and reports

Powerco found the array of expenditure forecasting materials that accompanied the Commission's decisions helpful. These materials being the Strata dashboard, BAU variance check, AMP evidence assessment and the Strata recommendations to the Commission. The materials were

useful to stakeholders as they provided transparency on supplier's expenditure forecasting assessments.

The dashboard reports were extensive and provided information on each GPB. The aim of the dashboards was to highlight areas that might require further assessment if the BAU variance check was exceeded. If the Commission is expecting to use this same approach in future DPP resets it would be useful to review the metrics used in the reports and the format of the dashboard report.

We acknowledge it is difficult to determine the appropriate metrics to use for each measure that are suitable to apply across the industry. It is also difficult to fit all the information onto one dashboard. However, to ensure the dashboards are easy to interpret, and indicate relevant information then they must be easy to read and include the most appropriate metrics.

We would welcome the opportunity to further work with the Commission and other suppliers to develop metrics and refine the dashboard for the purpose of assessment.

Powerco recommendation #4:

During the supplier scrutiny stage of the expenditure forecasting approach, we suggest that it may be useful for GDBs to have an opportunity to present any additional information to the Commission. This would allow the Commission to ask any further questions or seek clarification on any points. The Commission could at that time highlight any areas that they did not consider answered in full and an updated version of the written report could be provided.

Powerco recommendation #5:

We recommend that the metrics used in the assessment process and the format of the dashboard continue to be developed and refined during this next control period.

We recommend that the dashboard reports be further developed to be more informative and quickly understood. The dashboard contains a large amount of information provided in the form of graphs but the significance of the information in the graphs, or how that information is used, is not clearly explained in the Dashboard report.

Stakeholder briefings are worthwhile

Powerco appreciated the stakeholder briefings the Commission held on the mornings of its draft and final decisions. These briefings were beneficial as they provided financial analyst and industry participants the opportunity to ask questions and seek clarity on elements of the Commission's decision. The clarity gained from these sessions subsequently enhances the speed and quality of the reports analyst provide to their organisations.

Supporting materials and financial models

The supporting materials the Commission published were clear and user friendly and having immediate access to the Commission's financial models is very useful. The stakeholder briefing slide showing the cumulative effect of changes in WACC was particularly useful.

Powerco recommendation #6:

To aid analyst reporting it would be useful if, as part of the stakeholder briefing presentation, the reset price changes could be provided to 1 or 2 decimal places.

Powerco recommendation #7:

The Commission should publish the risk free rate and debt premium workbooks it uses to derive the WACC used in the draft decision.

IM Review and DPP reset overlap

From a process perspective it isn't ideal to be setting the rules for the framework (the IMs) at the same time as developing the DPP policy and determination that rely on that framework. Undertaking parallel processes where there are interdependencies can inhibit the consultation process when positions on one consultation are dependent on an outcome in the other. These situations will often necessitate an extended and disjointed consultation processes.

In terms of the Commission's sequencing of its processes, we acknowledge that the overlap was largely unavoidable. There may have been instances where the interdependences caused stakeholders frustrations, but by and large these occurrences were limited as a result of well thought-out and timed processes.

The option to use Powerco's 2017 Information Disclosure data was appreciated

Powerco appreciated the opportunity to provide the Commission with our latest Information disclosure data early so that it could be used in the Commission's final decision. Allowing the inclusion of the most recent data ensures starting prices are as efficient and accurate as possible.

Thank you for the opportunity to provide comments on the DPP reset process. If you wish to discuss any of the points made, or clarify any matters, in the first instance please contact Nathan Hill tel. (06)759 8582, email nathan.hill@powerco.co.nz.

Yours sincerely



Richard Fletcher
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