

Default price-quality paths for electricity distribution businesses from 1 April 2020

Proposed process

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Associated documents

Publication date	Reference	Title
28 November 2014	ISBN 978-1-869454-12-8	Default price-quality paths for electricity distributors from 1 April 2015 to 31 March 2020– Main Policy paper
28 November 2014	2014 NZCC 33	Electricity Distribution Services Default Price-Quality Path Determination 2015 – 28 November 2014
9 November 2017	-	Our priorities for the electricity distribution sector for 2017/18 and beyond

Commerce Commission
Wellington, New Zealand

Purpose of this paper

1. This paper outlines the process we propose following to set the next default price-quality path (DPP) for electricity distribution businesses (EDBs).¹
2. The main objectives of this paper are:
 - 2.1 to allow price-quality regulated EDBs and other interested parties to plan for future engagement on the DPP-setting process; and
 - 2.2 to seek views from all interested parties about this.
3. To achieve this, the remainder of this paper discusses:
 - 3.1 the proposed scope of the DPP from 1 April 2020;
 - 3.2 our proposed process;
 - 3.3 opportunities for stakeholders to contribute; and
 - 3.4 how you can provide your feedback on the matters discussed in this paper.
4. We invite submissions in response to this paper by **5pm, Tuesday 17 July 2018**.

DPPs from 1 April 2020

Price-quality regulation

5. Seventeen EDBs are subject to price-quality paths under Part 4 of the Commerce Act 1986 (the Act). Price-quality paths must specify:
 - 5.1 the maximum revenues EDBs can recover from their customers;
 - 5.2 the quality standards EDBs must meet; and
 - 5.3 the regulatory period.²

Default and customised price-quality paths

6. Regulated EDBs are subject to either the DPP or – upon application – to a customised price-quality path (CPP). Currently, three EDBs are subject to CPPs, as set out in Table 1, along with the dates when the regulatory periods for the paths end.

¹ More information about price-quality regulation and the current DPP can be found on our website at: <http://comcom.govt.nz/regulated-industries/electricity/electricity-default-price-quality-path/>

² Commerce Act 1986, section 53M(1); *Electricity Distribution Services Input Methodologies Determination 2012* [2012] NZCC 26 (as amended up to April 2018)

Table 1. Distributors subject to default and customised price-quality paths

Distributors on the DPP		31 March 2020
Alpine Energy	Aurora Energy	Centralines
Eastland Network	Electricity Ashburton	Electricity Invercargill
Horizon Energy	Nelson Electricity	Network Tasman
OtagoNet	The Lines Company	Top Energy
Unison Networks	Vector Lines	
Distributors on CPPs		
Orion NZ	Wellington Electricity	Powerco
31 March 2019	31 March 2021	31 March 2023

7. Four months before the end of the DPP regulatory period we are required to reset the DPPs applying to each EDB. The current DPP period ends on 31 March 2020, so we must publish our final DPP determination on or before 30 November 2019.
8. As Orion NZ will be subject to the current DPP when its CPP expires on 31 March 2019, the 2020 DPP reset will include setting its starting prices and quality standards. As Wellington Electricity and Powerco's CPPs expire during the next DPP period, we are required to set quality standards but not starting prices for these EDBs.

Key features of the DPP

9. The key features of the DPP that will be the focus of our consultation process are:
 - 9.1 starting prices and rates of change;
 - 9.2 quality standards;
 - 9.3 incentives to improve performance and efficiency during the regulatory period;
 - 9.4 the rules by which EDBs demonstrate and the Commission assesses compliance with the DPP (compliance requirements); and
 - 9.5 implementing changes made during the 2016 Input Methodologies review.

10. We also intend to consult on:
 - 10.1 the financial model used to determine starting prices;
 - 10.2 the forecasts of operating and capital expenditure that the financial model is based on;
 - 10.3 the drafting of the DPP determination; and
 - 10.4 any associated changes to Information Disclosure and Input Methodology determinations necessary to implement the DPP.
11. We anticipate publishing draft versions of these models and determinations as part of our draft decision, and potentially updated versions as part of our updated draft.
12. Consistent with feedback on our 2015 DPP process, we are planning on a substantially similar suite of models for our 2020 reset.³ As such, we do not consider it necessary to release a preliminary version of the financial model early in the process as we did in 2013.

Proposed process

13. Table 2 below sets out the process we propose to follow and the indicative dates for completion. We have based this process on the requirements of the Act, the timing of relevant information disclosures by EDBs, feedback on our previous DPP processes, and in response to the open letter.⁴ We will provide more definite dates closer to the time of the publication or event.
14. We are interested in your views on the suitability of the timing of these events and publications. In particular, we are interested in your views on the timing of our information gathering request on quality of service data, and the length of time required to respond.⁵
15. We are also interested in your views on the timing of our draft decision relative to the 31 March 2019 disclosure of the 2019 Asset management plan (AMP) updates. We currently anticipate basing our draft decision on the full 2018 AMPs, and then using 2019 AMP updates for the updated draft and final decisions.

³ Unison “Feedback on process to reset default price quality paths”, 10 April 2015, para 4(a)

⁴ Commerce Commission “Our priorities for the electricity distribution sector for 2017/18 and beyond”, 9 November 2017; submissions in response are available on our website at: <http://comcom.govt.nz/regulated-industries/electricity/our-priorities-in-electricity-distribution/>

⁵ The substance of this request is likely to be similar to the request issued prior to the 2015 DPP. This request is available on our website at: <http://comcom.govt.nz/dmsdocument/11587>

Table 2. Indicative dates for the DPP consultation process

Indicative date	Publication/event
19 June 2018	Process paper: <ul style="list-style-type: none"> • Four-week submission period (submissions due 17 July 2018)
September 2018	Information disclosure data for the year-ending 31 March 2018 disclosed
November 2018	Publication of DPP Issues paper: <ul style="list-style-type: none"> • Six-week submission period (mid-December 2018) • Four-week cross-submission period (mid-January 2019)⁶
Q1 2019	Information gathering request on quality of service (section 53ZD notice) issued
31 March 2019	AMP updates for the 2019-2029 period disclosed Final date for the submission of applications for discretionary shortening of asset lives
Q2 2019	Draft DPP decision: <ul style="list-style-type: none"> • Six-week submission period (submissions due July 2019) • Four-week cross-submission period (July/August 2019)
September 2019	Information disclosure data for the year-ending 31 March 2019 available Updated draft of the DPP decision: <ul style="list-style-type: none"> • Submission period to be determined based on scope of the updates to the draft decision⁷ Determination of the weighted average cost of capital (WACC) for EDBs
Late November 2019	Final DPP decision published

⁶ We have extended the usual cross-submission period to account for the holiday period.

⁷ We are including the option of additional, targeted consultation in response to submissions on our 2015 reset; Vector “Feedback on process to reset default price quality paths”, 20 March 2015, paras 5-6.

16. We note that the proposed timings of our issues paper and our draft decision are substantially earlier than the timing of the equivalent publications in the lead up to the 2015 DPP. This change is intended to allow more time to take into account stakeholder feedback prior to the publication of our final decision.⁸

Opportunities to contribute to the DPP

17. We will be seeking formal submissions and cross-submissions at each major step of the consultation process. In addition, we are also proposing other methods for having input into the DPP-setting process.

Electricity Networks Association (ENA) quality of service working group

18. The ENA has formed a working group focused on technical matters to do with quality standards and incentives. Similar to the process before the 2015 DPP reset, Commission staff will attend these working groups as observers only. Nothing that Commission staff say or do can bind Commissioners, who must be able to come to their own views on all matters.
19. In preparing the issues paper, we intend to take into account any material we receive from the ENA working group prior to September 2018.
20. Commission staff would also consider attending on a similar basis any other industry working groups formed to deal with other issues.

Workshops and question and answer sessions

21. We propose holding a series of workshops or question and answer sessions on relevant issues throughout the DPP process. In previous consultations, both Commission staff and stakeholders have found such forums useful to discuss issues in person, to share ideas, and to aid in the preparation of high-quality submissions.⁹
22. We are considering holding workshops:
- 22.1 prior to the publication of the issues paper in November 2018;
 - 22.2 following the publication of the draft decision in May 2019; and/or
 - 22.3 following the publication of the updated draft decision in September 2019.

⁸ Unison "Feedback on process to reset default price quality paths", 10 April 2015, para 4(b); Powerco "Feedback on process to reset default price quality paths", 10 April 2015, p 3

⁹ Powerco "Feedback on process to reset default price quality paths", 10 April 2015, p2

23. We are interested in your views on whether such workshops are useful to interested parties, and on the suitability of the timing of them.
24. We are also considering holding a DPP knowledge-sharing session early in the consultation process for stakeholders less familiar with the DPP-setting process and the Part 4 regime.

How you can provide your views

25. You are invited to provide your written views on this process paper no later than **5pm Tuesday, 17 July 2018**. You should address your responses to:

Keston Ruxton (Manager, price-quality regulation)
c/o regulation.branch@comcom.govt.nz

26. Please include “EDB DPP 2020 Process Paper” in the subject line. We prefer responses to be provided in a file format suitable for word processing in addition to PDF file format.

Requests for confidentiality

27. While we discourage requests for non-disclosure of submissions so that all information can be tested in an open and transparent manner, we recognise that there may be cases where parties that make submissions wish to provide information in confidence. We offer the following guidance:¹⁰
 - 27.1 If it is necessary to include confidential material in a submission, the information should be clearly marked, with reasons why that information is confidential.
 - 27.2 Both confidential and public versions of the submission should be provided.
 - 27.3 The responsibility for ensuring that confidential information is not included in a public version of a submission rests entirely with the party making the submission.

¹⁰ Parties can also request that we make orders under s 100 of the Act in respect of information that should not be made public. Any request for a s 100 order must be made when the relevant information is supplied to us, and must identify the reasons why the relevant information should not be made public. We will provide further information on s 100 orders if requested by parties. A key benefit of such orders is to enable confidential information to be shared with specified parties on a restricted basis for the purpose of making submissions. Any s 100 order will apply for a limited time only as specified in the order. Once an order expires, we will follow our usual process in response to any request for information under the Official Information Act 1982.

28. We request that you provide multiple versions of your submission if it contains confidential information or if you wish for the published electronic copies to be 'locked'. This is because we intend to publish all submissions on our website. Where relevant, please provide both an 'unlocked' electronic copy of your submission, and a clearly labelled 'public version'.