

ELECTRICITY DISTRIBUTION BUSINESS 2020 DEFAULT PRICE PATH PROCESS PAPER

VECTOR COMMENTS

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THE COMMISSION'S TIMELINE

- The Commerce Commission's Default Price-Quality Path (DPP) Process Paper provides an indication of the process the Commission will undertake for setting prices and quality metrics for electricity distribution businesses (EDBs) starting from 1 April 2020.
- The 1 April 2020 reset will be the third regulatory control period for most non-exempt EDBs. As such there is now a relative maturity in the DPP. Therefore, the Commission should use the opportunity provided for by the DPP reset to address the pressing matters being confronted by the industry and historically considered "too difficult" to address in a developing DPP regime. The Commission's process should take the initiative in the lead up to the next DPP to investigate such issues further.
- The DPP is an encompassing instrument that touches on all aspects of managing and operating highly specialised, dispersed infrastructure in a commercially responsible manner. Indeed, the constraints provided by the DPP set the resourcing limits for EDBs to discharge responsibilities for reliability, safety and security. Networks are also increasingly expected to discharge socially responsible obligations including pursuing initiatives on sustainability, including the sector's contribution to carbon emissions; taking action on energy fuel poverty; and increasing public awareness about responsibly acting around electricity infrastructure.
- The proposed process illustrated in **Graphic 1** does not provide much confidence that the Commission will provide due attention and the right resourcing to the very contentious issues covered by the DPP. They include: having the right specifications and measurement for service quality, fit for purpose incentives around demand side management and ensuring the transition in the "form of control" to a revenue cap occurs without unintended consequences. At the same time, the government Electricity Price Review may create new responsibilities or rules for networks that will change resourcing and capability for EDBs.
- Further, networks are now operating in a more complicated environment where demand and future energy usage is becoming increasingly uncertain. This uncertainty is stemming from increasing customer choice and energy technology innovation. The opportunities and challenges around the digitization of energy also requires more capability to deal with cyber-security threats and new energy technologies.

Graphic 1: Commission's proposed process

DPP Process Paper -
June 2018

DPP Issues Paper – November 2018

Draft Decision Q2 2019

Update Draft Decision –
Sep 2019

Workshops –

- Prior to Issues Paper
- Following Draft Decision
- Following updated Draft Decision

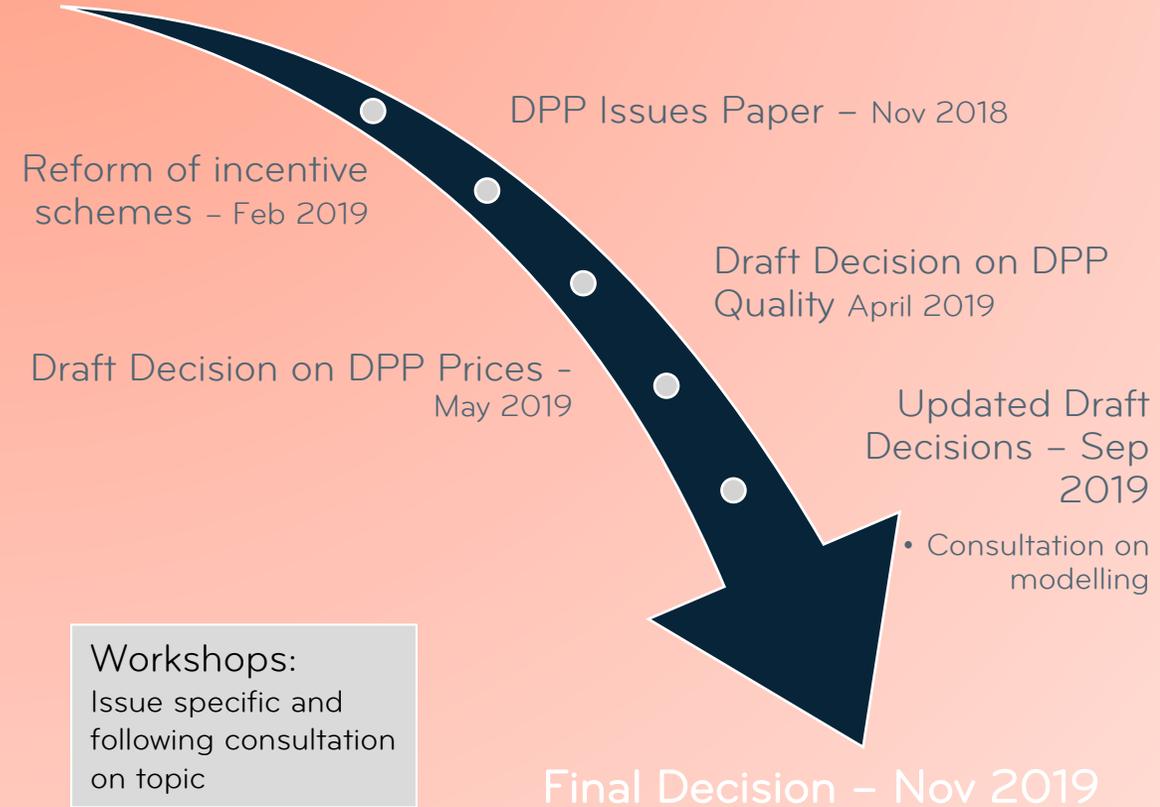
Final Decision – Nov 2019

VECTOR'S RECOMMENDATIONS

- The Commission's process is very similar to previous approaches it has taken for setting DPPs. We see opportunity for reform to the Commission's process given our experience with previous DPP resets for price-quality businesses in the gas and electricity network sectors. We provide our suggestions for the proposed DPP Process in **Graphic 2**.
- We see an opportunity for the Commission to separate out its Draft Decision consultations for service quality and price. We see no reason for these decisions to be made at the same time. Both service quality and price have complicated issues to address and separating the Draft Decision timeline to deal with the issues relevant to the matters separately will allow a more considered final view to develop for each component.
- We support each decision having its own submission and cross-submission timeline to ensure rigour in the consultation process. Having the matters considered at the same time in one draft decision does reduce the resourcing effort available to fully respond to the suite of considerations necessary for the Commission to make its final decision.
- We also recommend the Commission separately consult on the modelling after the Draft Decision consultation. We have had experiences of the modelling produced by the Commission containing errors and given the time constraints we have not been able to fully interrogate during the Draft Decision process. A separate consultation post the draft decision for the modelling will enable stakeholders to properly interrogate the Commission's modelling to ensure any decisions resolved in the Draft Decision are correctly reflected in the Commission's models.
- Allowing a separate consultation following the Draft Decision on the modelling provides an opportunity to trace whether the modelling contains errors, gives effect to the decision and also uses appropriate inputs.

Graphic 2: Vector's proposed DPP Process

DPP Process Paper



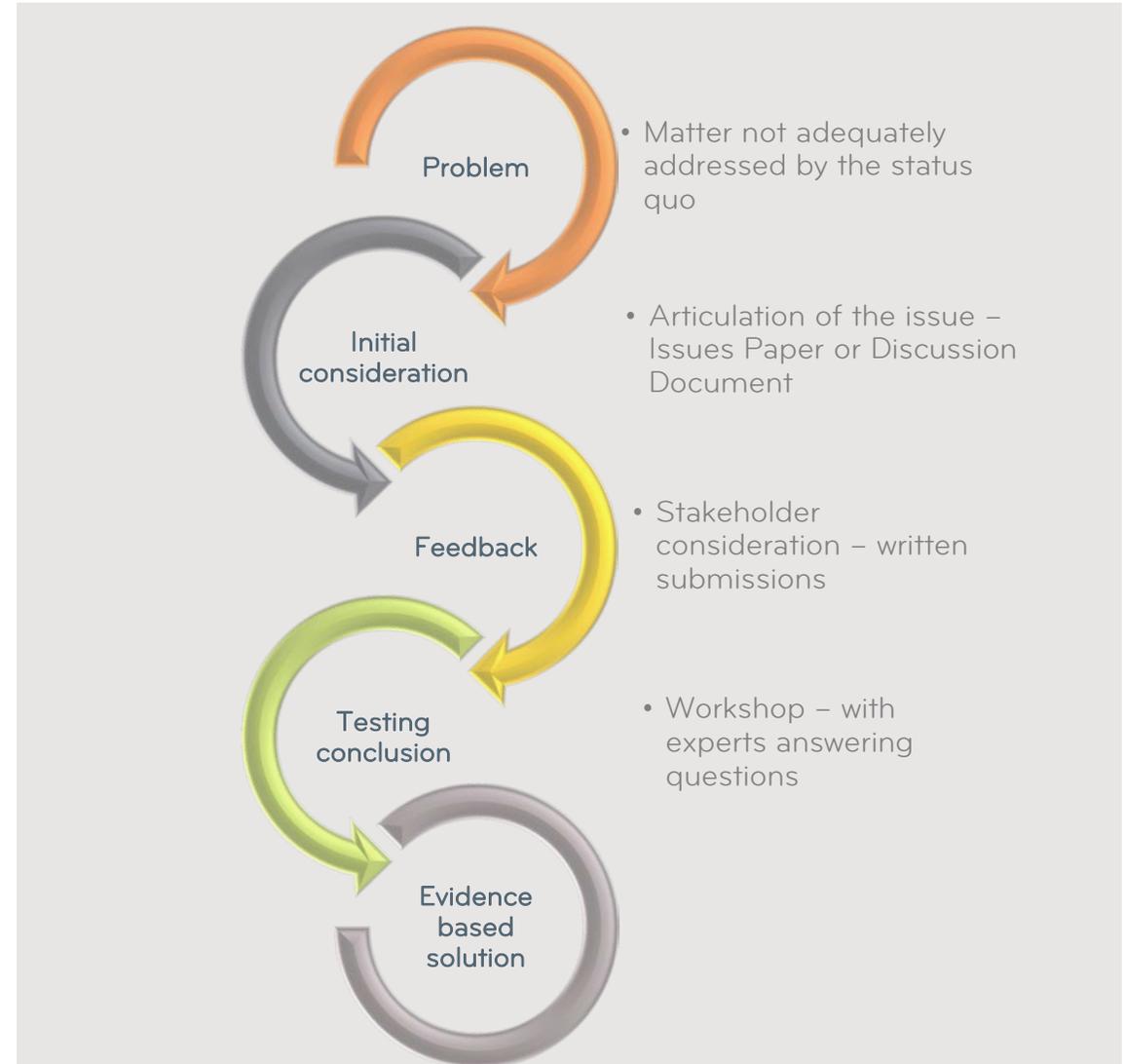
ASSET MANAGEMENT PLANS

- We encourage the Commission to utilise the information provided by EDBs in asset management plans (AMP) when considering resourcing needs for networks over the DPP period.
- We strongly encourage the Commission to use the 2019 AMP which will be the most recent version of the AMP available to the Commission as it considers the needs of EDBs for the upcoming DPP.
- Our experiences to date have found forecasting for AMP or AMP updates can be usurped very quickly by developments in the market – such as an unanticipated increase in development activity or a safety alert requiring a class of asset to have a full swap out cycle to be initiated. Accordingly, information in AMPs can change materially between years and therefore using the most recent AMP prior to the reset is most appropriate.
- Equally important is EDB forecasting of future energy and demand which is becoming more unpredictable over time. The AMP provides an opportunity for an EDB to articulate, in a systematic format, the forward looking view of network needs, operational plans and expected changes to system demand for the network.



STAKEHOLDER WORKSHOPS

- We encourage the Commission to make the most of the opportunity provided by stakeholder workshops. Targeted workshops on specific issues provide an opportunity for Commissioners and Commission staff to test their understanding of issues and the range of considerations provided by stakeholders in written submissions.
- A targeted issues specific workshop is a powerful tool to interrogate subject matter experts on issues the Commission has concern about for addressing in the DPP. The opportunity to engage in a constructive dialogue allows the Commission to explore the range of considerations relevant for making a decision that will best meet the Part 4 purpose.
- Previous examples of successful workshops conducted by the Commission during the Input Methodologies Review include the weighted average cost of capital workshop and the emerging technology issues workshop. These workshops were issue specific, followed the publication of the Commission's initial views on the subject matter and involved subject matter experts on the topic.
- In contrast, a broad brushed workshop covering the whole DPP will limit the ability of subject matter experts from attending and sufficient attention being given to topical issues.
- We recommend possible issue specific workshops be considered for: quality of service, the retirement of the D-factor scheme (and potential alternatives) establishing DPP/CPP enforcement guidelines, ensuring ROW assets avoid catastrophic consequences and issues with transitioning to a revenue cap.



CONTACT POINT FOR SUBMISSION

- We look forward to engaging with the Commission as it undertakes the process for setting the five year DPP from 1 April 2020.
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