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Brett Woods
Senior Analyst
Commerce Commission
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Proposed amendments to input methodologies for Electricity Distribution Services

Dear Brett,

The Electricity Networks Association (ENA) appreciates the opportunity to comment on the proposed amendments to input methodologies (IMs) for electricity distribution services, as set out in the consultation paper dated 24 June 2014.¹ We understand that the proposed amendments are primarily intended to address issues with IMs which apply to Default Price Quality Path (DPP) regulation. There are also however, related amendments proposed to IMs for information disclosure (ID) and customised price quality path (CPP) regulation. We understand that the proposed amendments affect the financial model which has been developed to set starting prices for the DPP to apply from 1 April 2015, based on current and projected profitability.

The ENA supports amendments to the IMs where they are required to give effect to the underlying policy intent of the Part 4 regulatory requirements, remove ambiguity, and correct for errors and inconsistencies. In this respect, the ENA provided a comprehensive schedule of technical IM issues to the Commerce Commission in February this year.²

Proposed amendments

The consultation paper proposes the following IM amendments:

- i. *the definition of notional deductible interest is amended to reflect a mid-year cash flow timing assumption.* We support the proposal to apply mid-year cash flow timing to this item. This amendment will also remove an inconsistency between the IMs for gas pipeline businesses (GPBs) and electricity distribution businesses (EDBs).
- ii. *the double deduction of the term credit spread differential allowance (TCSD) is corrected.* The ENA supports correction of this error.

¹ Commerce Commission, Proposed amendments to input methodologies for Electricity Distribution Services, 24 June 2014

² PricewaterhouseCoopers, Review of Input Methodologies, Report prepared for the ENA, 14 February 2014

- iii. *the definition of amortisation of initial differences in asset values is simplified.* The ENA supports this amendment to introduce a more direct and accurate definition of this term.

Other potential amendments

We understand that the Commission is currently addressing a number of different aspects of the proposed DPP price paths and quality standards. We envisage that these may require further amendments to the IMs prior to the forthcoming DPP Determination. We also understand that the Commission is currently reviewing the ID and CPP regulatory requirements as they apply to EDBs and GPBs, which may also generate potential IM amendments.

As noted above, the ENA has provided the Commission with a comprehensive list of technical IM issues for consideration. The three amendments in the consultation paper address only a subset of the issues which we have raised with you. In addition, in our submission on the DPP financial model³ we raised a number of other issues for consideration when specifying the financial model for the DPP reset.

The current consultation paper does not recognise either of these submissions. Accordingly it is not clear to us whether the issues we have raised to date have been considered, whether they are yet to be considered and addressed in forthcoming consultations, or whether the Commission has an alternative solution in mind. Without this information we are unable to fully contribute to the consultation process.

Accordingly we request clarification from the Commission as to whether our technical submissions on the IMs and DPP financial model have been fully considered, and the Commission's response to the issues we have put forward.

We trust this submission assists the Commission as it prepares for the DPP reset. Please contact Nathan Strong (on 06 873 9372) in the first instance if you have any questions about this submission.

Yours sincerely



Alan Jenkins

Chief Executive
Electricity Networks Association

³ ENA, Submission on Preliminary Version of the Financial Model for Electricity Default Price-Quality Paths from 2015: Technical Consultation, 7 February 2014