

20 March 2014



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John McLaren
Manager
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Dear John,

Feedback on electricity DPP reset process

Introduction

1. Vector welcomes the opportunity to respond to the Commerce Commission's (Commission) open letter *Feedback on process for resetting default price-quality paths for electricity distributors*, dated 27 February 2015.

Timeframe for seeking feedback

2. Vector supports the Commission's approach of seeking feedback on its process for making major decisions once those decisions have been reached. We suggest that this feedback is sought quickly after the final decision is issued, so that feedback can be provided while the process is still fresh in submitters' minds. Seeking feedback in March/April for a process that ended the previous November may be a little later than is optimal.¹

Feedback on DPP reset process

Support for industry-led initiatives is appreciated

3. Vector welcomes the Commission's engagement with and support for the ENA working groups. We also welcomed the Commission's willingness to allow

¹ Feedback provided in this submission is largely taken from notes Vector prepared in November 2014 in anticipation of this consultation process. Had we not made those notes at the time, much of the feedback in this submission may have been lost.

Vector to assist with the drafting of what became the new pass-through balance approach. However, in our view the detailed debates over the terms of reference for the working groups caused some delay without making a notable difference to the way the groups operated.

4. We also found our engagements with the Commission to be constructive, helpful and well-informed throughout.

An additional, targeted, consultation round would be helpful

5. We suggest building in an additional consultation round where material changes are made to a draft decision. For example, following the draft decision stage the Commission made substantive changes to its approach to revenue forecasting and to the setting of quality standards. After the draft decision, there was only limited time left for a full consultation on the revised proposals.
6. A consultation process that started earlier and included time for a “second draft decision” to be issued on items where the Commission has made material changes from the draft decision would be helpful. This could be targeted so it only consulted on areas where material changes have been made from the draft decision. Alternatively, an “options paper” could be issued between the issues paper and draft decision consultations.

Full explanations of decisions would be extremely helpful

7. The key improvement we would like to see in future consultation rounds is a commitment to better explain important decisions. Full explanations are necessary so submitters can understand what the Commission’s view is and thus address their submissions to that topic, rather than trying to guess what the Commission’s concern might be.
8. For example, in the draft decision papers the Commission did not explain its proposal to not carry over any negative balance between regulatory periods.² Instead the paper just invited submissions on this. However, without understanding the Commission’s reasoning it was difficult to construct a

² Commerce Commission, *Proposed Compliance Requirements for the 2015-2020 Default Price-Quality Paths for Electricity Distributors*, 18 July 2014, paragraphs 3.50-3.51. We recognise the Commission raised concerns in subsequent paragraphs regarding “flexibility” but this was not very helpful as the Commission did not set out why this flexibility was a bad thing or what problems it was expected to cause.

submission as we did not know what problem or risk the Commission was seeking to address.

9. Similarly, the reasoning for the draft decision to set the quality standard at the historical average rather than 1 standard deviation above (i.e. a concern that legally the quality standard was legally required to be set at the mid-point of the incentive range) was not explained in the consultation material and we only gleaned this later from discussions with Commission staff. It would have been helpful if this thinking had been included in the consultation paper.

In some areas the level of analysis could have been improved

10. As described in our submission,³ we found the level of analysis initially undertaken by the Commission on forecasting of demand growth to be of concern. In our view the Commission has an obligation to take sufficient care to develop a robust forecast and to sense check the positions that it reaches. Where there are clear issues with the analysis, it would be more efficient for them to be identified before the draft decision is issued and thus submitters can comment on better-developed proposals that are more likely to be implemented. We would suggest that the Commission takes sufficient care in its analysis and development of forecasting approaches to ensure the outcomes are robust.

53ZD processes could be improved

11. The 53ZD notice issued on 13 August 2014 required the provision of information already held, or able to be derived, by the Commission.⁴ In our view, it was not reasonable to require further certification and disclosure of information that had already been certified and provided to the Commission. The only outcome this achieved was to increase costs for all parties.
12. While we welcome Commission efforts to consult on the content and structure of 53ZDs before they are issued, in our view the process of consulting with the ENA only is sub-optimal. A better approach would be to consult formally with all parties. As the Commission should know what information it needs to make its decision well in advance, we do not see why this consultation step could not be built into a DPP process.

³ Vector Limited, Submission on DPP low-cost forecasting approaches, 15 August 2014, pages 9-12.

⁴ Vector's schedule 8 disclosures had already provided some of the revenue breakdown material that was required. Similarly, the Commission already had capital contributions values in nominal terms and would have been able to derive the constant price values from those, at least for some EDBs including Vector.

13. Finally, the 53ZD notices were issued late in the process with limited time to respond. Additional time would be most helpful in relieving pressure of responding to the notices at the same time as meeting other requirements.

Technical draft consultation round

14. The most helpful innovation in this consultation round would be for the Commission to provide a determination that is track-changed against the draft determination issued with the draft decision. This would enable the reviewers to focus on the changes that have been made since the draft decision.
15. We were not sure the table containing the clause-by-clause discussion was particularly useful – it became just one more item to check for consistency against the determination and the reasons discussion.

Staging of major consultation processes

16. Running the WACC percentile consultation and the DPP and IPP reset consultations at the same was not ideal and created substantial workload issues for all parties, no doubt including the Commission. Such overlaps of major workstreams should be avoided in future wherever possible.

Contact details

17. If you would like further information please contact me on 09 978 8277 or at ian.ferguson@vector.co.nz.

Yours sincerely,



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