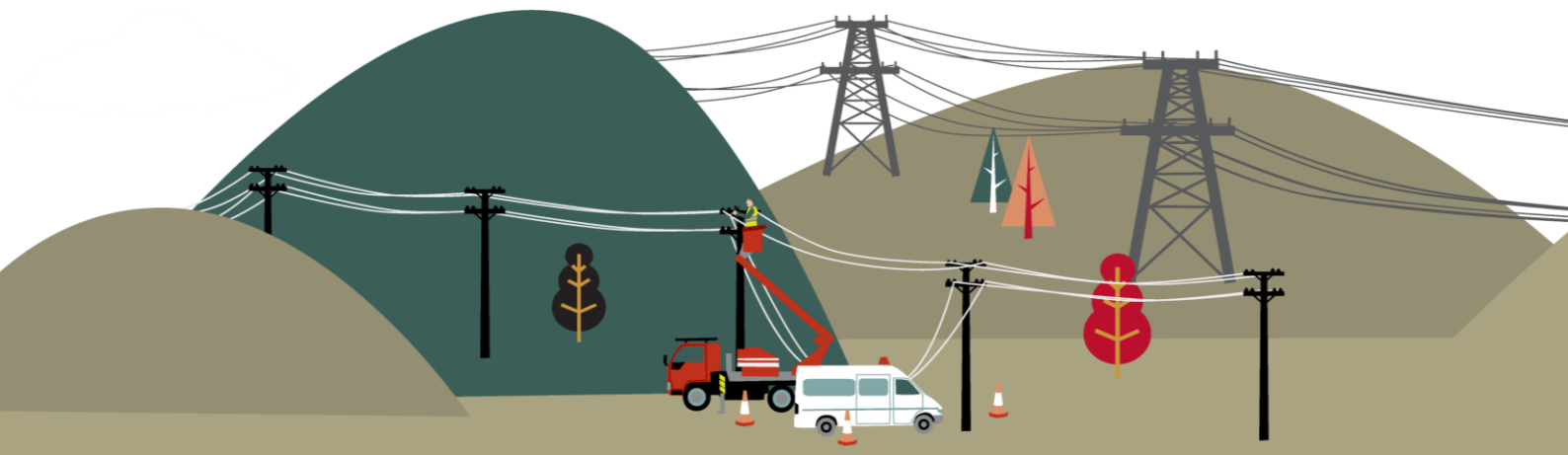


# Default price-quality paths for electricity distribution businesses from 1 April 2020

Process update

Date of publication: 6 September 2018



## 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
14 June 2018	ISBN 978-1-869456-42-9	Default price-quality paths for electricity distribution businesses from 1 April 2020 – Proposed process

Commerce Commission  
Wellington, New Zealand

## Purpose of this paper

1. This paper updates stakeholders on the process we will follow to set the next default price-quality path (DPP) for electricity distribution businesses (EDBs) following submissions from interested parties on our process paper.<sup>1</sup>
2. Specifically, this paper covers:
  - 2.1 Changes to the scope and content of consultation publications and events.
  - 2.2 Updates to the timing of those publications and events.
3. A number of stakeholders also included submissions on the substance of the DPP in their submissions. These submissions have been useful for us in determining the scope of the DPP, and we will be addressing them in our issues paper, which we intend to publish in November 2018.

## Scope and content of consultation steps

4. This section updates stakeholders on the changes we have made to the content and scope of consultation steps in response to feedback in submissions.

### *Early release of the financial model*

5. We will release an early version of the financial model alongside our issues paper in November 2018.
6. We originally proposed not releasing an initial version until the draft decision stage. However, as Horizon Networks identified in its submission, not all parties will be as familiar with the 2015 model, and an early release will help them build their understanding.<sup>2</sup> Orion also highlighted that early release will be useful for identifying any potential problems early in the process.<sup>3</sup>

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<sup>1</sup> Commerce Commission “Default price-quality paths for electricity distribution businesses from 1 April 2020 – Proposed process” (14 June 2018). Submissions are available on our website at: <https://comcom.govt.nz/regulated-industries/electricity-lines/electricity-lines-price-quality-paths/electricity-lines-default-price-quality-path/2020-2025-default-price-quality-path>

<sup>2</sup> Horizon Networks “Submission on proposed process for the 2020 default price-quality path for electricity distributors” (17 July 2018), page 1

<sup>3</sup> Orion NZ “Submission on proposed process for the 2020 default price-quality path for electricity distributors” (17 July 2018), page 2

7. This model will use the data from the 2015 DPP reset, but will be updated for changes made during the 2016 Input Methodologies review. As suggested by Aurora Energy in its submission, we intend to specify and explain these changes in our issues paper.<sup>4</sup>
8. In addition, we will subsequently release a full suite of supporting models (for example, for forecasting operating or capital expenditure) alongside our draft decision in May 2019.
9. Vector recommended an additional round of consultation on modelling after the draft decision, to identify any potential errors.<sup>5</sup> We agree that robust testing of modelling is an important part of the DPP process, and we intend to release updated models as part of our updated draft decision in September 2019.

#### *Workshops and knowledge sharing sessions*

10. We intend to hold two sets of workshops around the issues paper. These will include:
  - 10.1 an introductory knowledge sharing session prior to the publication of the issues paper; and
  - 10.2 targeted workshops early in 2019 following submissions on the issues paper.
11. Overall, stakeholders were supportive of holding workshops. Two broad themes emerged in submissions:
  - 11.1 some parties stated they would find introductory workshops useful;<sup>6</sup> and
  - 11.2 others highlighted that industry workshops in the past have been most useful when they are targeted on specific issues, rather than general in nature.<sup>7</sup>

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<sup>4</sup> Aurora Energy “Submission on proposed process for the 2020 default price-quality path for electricity distributors” (17 July 2018), page 3

<sup>5</sup> Vector Lines “Submission on proposed process for the 2020 default price-quality path for electricity distributors” (17 July 2018), page 2

<sup>6</sup> Horizon Energy “Submission on proposed process for the 2020 default price-quality path for electricity distributors” (17 July 2018), page 2; MEUG “Submission on proposed process for the 2020 default price-quality path for electricity distributors” (17 July 2018), page 1; Orion NZ “Submission on proposed process for the 2020 default price-quality path for electricity distributors” (17 July 2018), page 2; ERANZ “Submission on proposed process for the 2020 default price-quality path for electricity distributors” (17 July 2018), page 2

12. The introductory workshop will be held Monday 5 November 2018, from 10am – 4:30pm, at the Commission’s Wellington offices.
13. We will determine the specific topics for the post-issues paper workshops after receiving submissions. This will allow us to identify the issues which would most benefit from in-depth discussions.

*Quality of service information gathering request*

14. We propose issuing an information request (under section 53ZD of the Commerce Act 1986) for quality of service data late in 2018, but not requiring this data to be audited or certified. We will then issue a further request in mid-2019 for audited and certified data, and including data for the year ending 31 March 2019.
15. We had planned to issue the further request early in 2019. In response, several EDBs and the Electricity Networks Association (ENA) indicated that a later date would be more suitable, to allow time for data for the year ending 31 March 2019 to be collated, audited, and certified by directors.<sup>8</sup>
16. We appreciate these concerns, and the effort involved in preparing the necessary data. However, to make a draft decision which usefully informs stakeholders about our proposed quality standards or incentives, we need up to date data prior to the draft decision. For this reason, we cannot delay a request past March 2019.
17. To deal with these competing factors, we therefore propose two rounds of information gathering:
  - 17.1 an initial request in late 2018 with an eight-week response time, for data covering the period from 1 April 2014 to 31 March 2018, without audit and certification requirements, which we will use for analysis supporting the draft decisions; and
  - 17.2 an additional request in mid-2019, adding data up to 31 March 2019, and requiring audit and certification, which we will use for any further analysis and for the final decision.

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<sup>7</sup> Vector Lines “Submission on proposed process for the 2020 default price-quality path for electricity distributors” (17 July 2018), page 4; and Powerco “Submission on proposed process for the 2020 default price-quality path for electricity distributors” (17 July 2018), page 1

<sup>8</sup> Aurora Energy “Submission on proposed process for the 2020 default price-quality path for electricity distributors” (17 July 2018), page 3; ENA “Submission on proposed process for the 2020 default price-quality path for electricity distributors” (17 July 2018), page 2

18. MEUG raised the issue of incorporating this information into EDB’s information disclosure requirements. Given the recurrent nature of this request, we see benefit in this. However, we need to consider amendments to information disclosure separately from the DPP, as these affect both price-quality regulated and exempt EDBs.<sup>9</sup>

#### *Phasing of consultation*

19. We are not proposing to phase our consultations by topic. Vector and the ENA both recommended breaking consultation rounds up by broad topics (expenditure, quality, incentives).<sup>10</sup>
20. We can see merit in the proposal, given the volume of consultation materials parties will have to work through over the next 15 months. However, we do not consider the decisions on different components of the DPP can be disaggregated from one another, and for parties to meaningfully have their views taken into account, they need to see the “whole picture” at once.
21. However, we consider that the multiple rounds of consultation we are proposing with the options of workshops in between will allow us to focus on the most material issues.
22. Additionally, in response to submissions we are proposing an extension to consultation timelines to account for the high workload during Q2 and Q3 next year.

#### **Updates to timing of major publications and events**

23. This section explains changes to the timing of our DPP consultation process. The updated dates for each major milestone are set out in Table 1. Key changes in response to submissions are discussed below.

#### *Timing of cross-submissions on the issues paper*

24. We are extending the date for cross-submission on the issues paper for an additional two weeks, to better take account of the holiday period, as suggested by each of Aurora Energy and Orion in their submissions.<sup>11</sup> Cross-submissions will now be due 31 January 2019.

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<sup>9</sup> MEUG “Submission on proposed process for the 2020 default price-quality path for electricity distributors” (17 July 2018), page 3

<sup>10</sup> Vector Lines “Submission on proposed process for the 2020 default price-quality path for electricity distributors” (17 July 2018), page 2; ENA, “Submission on proposed process for the 2020 default price-quality path for electricity distributors” (17 July 2018), page 1

<sup>11</sup> Aurora Energy, “Submission on proposed process for the 2020 default price-quality path for electricity distributors” (17 July 2018), page 3

**Table 1. Updated dates for the DPP consultation process**

<b>Updated date</b>	<b>Previous date</b>	<b>Publication/event</b>
<b>Q4 2018</b>	<i>Q1 2019</i>	Initial information gathering request on quality of service (section 53ZD notice) issued
<b>5 Nov 2018</b>		Introductory DPP knowledge sharing session
<b>15 Nov 2018</b>	<i>Nov 2018</i>	Publication of DPP issues paper including financial model
<b>20 Dec 2018</b>	<i>Mid-Dec 2018</i>	Submissions due on the issues paper (five weeks)
<b>31 Jan 2019</b>	<i>Mid-Jan 2019</i>	Cross-submissions on the issues paper (six weeks)
<b>Feb/Mar 2019</b>		Issue-specific workshop(s) following issues paper
<b>1 Mar 2019</b>	<i>31 Mar 2019</i>	Final date for the submission of applications for discretionary shortening of asset lives <sup>12</sup>
<b>31 Mar 2019</b>	<i>31 Mar 2019</i>	AMP updates for the 2019-2029 period disclosed
<b>May 2019</b>	<i>Q2 2019</i>	Draft DPP decision
<b>Jul 2019</b>	<i>Jul 2019</i>	Submissions on the draft decision (eight weeks)
<b>Aug 2019</b>	<i>Jul/Aug 2019</i>	Cross-submissions on the draft decision (four weeks)
<b>Aug 2019</b>		Final information gathering request on quality of service data
<b>Sep 2019</b>	<i>Sep 2019</i>	Information disclosure data for the year ending 31 March 2019 available
<b>Sep 2019</b>	<i>Sep 2019</i>	Updated draft DPP decision
<b>28 Nov 2019</b>	<i>Late Nov 2019</i>	Final DPP decision published

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<sup>12</sup> The change to this date is a consequence of our proposed amendments to the Input Methodologies. Commerce Commission "Proposed amendments to Electricity Distribution Services Input Methodologies Determination in relation to accelerated depreciation" 23 August 2018

*Timing of submissions on the draft decision*

25. We are extending the submission period for the draft decision from six weeks to eight weeks. Orion pointed out that the May/June period is a busy period for EDBs, so suggested an extension to the period.<sup>13</sup> We agree with this suggestion, and will provide more precise timing closer to the draft decision.

*Other parallel industry consultations*

26. To the extent possible, we will endeavour to avoid clashing submission deadlines and consultation periods with other electricity industry consultations such as the Electricity Authority's transmission pricing review and the Electricity Price Review.
27. The Electricity Retailers Association of New Zealand and Mercury Energy highlighted this as a potential issue in their submissions. Based on current information, we do not foresee any clashing of timelines for the remainder of 2018, but we will update parties as dates for other consultations become clearer.

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<sup>13</sup> Orion NZ "Submission on proposed process for the 2020 default price-quality path for electricity distributors" (17 July 2018), page 2