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John McLaren  
Manager, Part 4, Regulation Branch  
Commerce Commission  
By email: [regulation.branch@comcom.govt.nz](mailto:regulation.branch@comcom.govt.nz)

Wellington Electricity  
Lines Limited  
75 The Esplanade  
Petone, PO Box 31049  
Lower Hutt 5040  
New Zealand  
Tel: +64 4 915 6100  
Fax: +64 4 915 6130  
[www.welectricity.co.nz](http://www.welectricity.co.nz)

Dear John McLaren

## Feedback on process for resetting default price-quality path for electricity distributors

### 1. Introduction

Wellington Electricity Lines Limited (**WELL**) welcomes the opportunity to respond to the Commerce Commission's (**Commission**) 'Open letter seeking feedback on process for resetting default price-quality path for electricity distributors' published 27 February 2015.

Our submission focuses on the following three aspects of the process for resetting the 2015-2020 default price-quality path (**DPP**):

- Process timing;
- Document quality; and
- Engagement with stakeholders.

### 2. Process timing

WELL generally considers that the intended timeframe for reviewing the DPP should have been appropriate. However, in practice the number of Input Methodology amendment consultations undertaken in parallel with the DPP reset resulted in significant workload spikes over the May to September period. This meant that the timeframe available was not appropriate and as a consequence, we consider that insufficient time was spent by the Commission on core components of the DPP, such as the opex, capex and constant price revenue growth forecasting methods. In particular, the Commission did not place sufficient time or effort to assessing the performance of its forecasting models and investigating whether these were fit for purpose. An ex post performance review of forecasting approaches is an essential step for ensuring that the Commission's methods are fit for purpose and promoting the purposes of Part 4 of the *Commerce Act 1986 (Act)*.

Importantly, the Commission did not issue an information request to collect the data necessary to assess its constant price revenue growth model early enough in the reset process. The data was only received from EDBs in late September 2014. This provided no opportunity for EDBs to analyse the information and make informed submissions, which were due in August 2014. The timing also did not provide the Commission sufficient time to fully understand and assess the information or to develop, consider, and consult on alternative forecasting methods. As a result of the time constraints, forecasting models that have poor predictive capability and are not statistically robust have been retained. Further detail about this is contained in WELL's letter to the Commission about the CPRG model, dated 26 March 2015.

### 3. Document quality

WELL commends the Commission on the clear and concise drafting of documents published during the DPP reset process. Similarly, the Commission has continued to make improvements in the clarity of its financial models over time and the final DPP models were relatively easy to follow.

An area for improvement however would be the volume and sequence of documents published, particularly the draft decision papers. The draft decision was spread across nine consultation papers, covering different and overlapping aspects of the overall draft decision. There were also different due dates for submissions on the different papers. This process created additional work for stakeholders in reviewing the various papers and ensuring that submissions responded to all relevant aspects covered in each consultation paper. It also created some confusion regarding how many separate submissions were required in response to the multiple consultation papers.

Further we are concerned that the Commission's rationale for some of its decisions was not well justified. For example, the decision to retain its constant price revenue growth model in light of evidence from three independent experts that the model was not fit for purpose. Importantly, the Commission did not respond to, or address, the issues raised by these independent experts. As noted above, the Commission also put little effort into analysing the forecasting capability of its models and limited the ability of stakeholders to fill this gap by delaying issuing an information request to collect the required data. The Commission also did not adequately investigate the merits of alternative models proposed by stakeholders. We are therefore concerned that the lack of merits appeals rights under the DPP, means that the Commission does not have an imposed discipline to provide robust justification that its decisions promote the purpose of Part 4 of the Act.

Additionally, the Commission's approach of forecasting each aspect of the DPP in isolation from each other and without undertaking an overall reasonableness test, led to illogical outcomes, for example the Commission reduced WELL's reliability targets while also reducing the opex and capex allowances, however it is not realistic to expect an improvement in reliability without additional expenditure on the network. It is important that highly interrelated matters are considered in tandem.

#### **4. Engagement with stakeholders**

WELL commends the Commission for its active and responsive engagement with stakeholders. The reset process was facilitated by the Commission's willingness to participate in the ENA working groups and to hold its own workshops. Workshop processes provide a great opportunity for the Commission to better understand stakeholder views and gain a deeper understanding of relevant operational practices of the electricity distribution industry. WELL also appreciates the Commission's willingness to meet with stakeholders during the DPP process as this enables a focussed discussion on specific issues of importance to stakeholders of the Commission.

It was also useful for the Commission to engage with the ENA regarding the content of information requests. Engagement before issuing the request assists to maximise the likelihood that the data collected reflects what the Commission requires to undertake its analysis.

#### **5. Closing**

WELL appreciates the opportunity to respond to the Commission's open letter. We support the Commission undertaking self-assessments following major reviews as the feedback received can be utilised facilitate continued process improvement over time.

Please do not hesitate to contact Megan Willcox, Regulatory Projects Manager, on [MWillcox@welectricity.co.nz](mailto:MWillcox@welectricity.co.nz) if you have any queries.

Yours faithfully



Greg Skelton

**CHIEF EXECUTIVE OFFICER**