

COMMERCE COMMISSION

Request for Proposal

Regulation of Electricity Lines Businesses Review of Asset Management Plans and Service Quality Information

Purpose

This request for proposal (RFP) is issued by the New Zealand Commerce Commission (the Commission).

On Friday 10 September 2004, the Commission issued an Invitation for Expressions of Interest to select a shortlist of possible providers of expert advice in reviewing asset management plans, recommending best practice with respect to engagement by lines businesses with consumers, and analysing the impact of severe events and their impact on reliability data for individual lines businesses.

This RFP is being sent to shortlisted providers to solicit full proposals in line with this RFP and the two associated Terms of Reference.

Context

As outlined in the Invitation for Expressions of Interest, the Commission is continuing its implementation of a regulatory regime for electricity lines businesses (lines businesses) under Part 4A of the Commerce Act (the Act). Among other things, Part 4A includes provisions for a targeted control regime (subpart 1 of Part 4A) and an information disclosure regime (subpart 3 of Part 4A).

Under the targeted control regime the Commission has received threshold compliance statements from lines businesses relating to their performance against a quality threshold (for the period ending on 31 March 2004). To comply with the quality threshold, each distribution business must have demonstrated:

- no material deterioration in reliability of supply over the previous 12 months (the SAIDI and SAIFI criteria);¹ and
- that it has meaningfully engaged with consumers to determine their demand for service quality (the customer communication criteria).

The Commission is currently examining a number of breaches of the SAIDI and SAIFI criteria to determine what further action, if any, is required. In addition, the Commission is reviewing information provided in relation to the customer communication criteria to evaluate the ways in which businesses engage with consumers concerning the trade-offs between price and service quality, with a view to developing possible best practice criteria for such engagement.

¹ 'SAIDI' means the system average interruption duration index, and 'SAIFI' means the system average interruption frequency index.

Under the information disclosure regime, as implemented in the Commission's *Electricity Information Disclosure Requirements 2004* (the Requirements), the Commission has recently received the current ten-year asset management plans for each distribution business. The Commission is required to summarise and analyse those plans in order to promote greater understanding of the performance of the businesses.

Consultants have been selected on the basis of information included in their expression of interest (EOI), in particular: the experience of the people proposed to undertake work in the above areas and the absence of actual, potential or perceived conflicts of interest. In submitting a full proposal, consultants should expand on the information provided in their EOI, and demonstrate their specific capabilities for fulfilling either or both of the two Terms of Reference for the proposed assignments, along the lines described below.

The required work has been split into two assignments and therefore two Terms of Reference have been prepared – 'Customer Communication/Asset Management Plan Review' and 'System Reliability.' These reflect the different emphasis/skill sets that it is considered are required. Shortlisted providers (consultants) are invited to submit proposals for one or both of these.

Closing date

The closing date for submission of proposals is **5.00pm, Friday 22 October 2004**. The Commission expects to make a decision on the award of the contract by Friday 12 November 2004. Unsuccessful RFP proposers will be advised thereafter.

Proposals

The Commission wishes to receive proposals for expert advice with respect to the two assignments outlined in the proposed two Terms of Reference (attached).

Depending on the substance of any proposals received, the Commission is open to whether one consultant is engaged for both assignments or whether different consultants are engaged. Consequently, consultants may submit proposals for either or both of the proposed assignments.

Proposals should contain the following information:

- The approach the consultant proposes to undertake in relation to the tasks outlined in the relevant Terms of Reference, including likely outputs, and the insights that could be drawn from the assignment;
- The people who will carry out the work and their relevant experience;
- A description of the consultant's project management and quality assurance processes;
- Suggestions for any improvements to the Terms of Reference;
- A schedule for completion of the assignment and proposed milestones (where relevant);
- For the Customer Communication / Asset Management Plan Review assignment, the total cost of undertaking the assignment (exclusive of the possible workshop module). All prices are to be in New Zealand dollars and exclusive of goods and services tax. The Commission also requests a breakdown of costs as appropriate for elements of the required work, including (where relevant) expenses, and a breakdown of the daily charge out rate for each of the people who are proposed to carry out the work;

- For the System Reliability assignment the total cost of undertaking the component of the assignment described as “recommend ‘extreme event’ and ‘normal variation’ criteria relevant to assessing breaches of the quality threshold”. All prices are to be in New Zealand dollars and exclusive of goods and services tax. The Commission also requests a breakdown of costs as appropriate for elements of the required work, including (where relevant) expenses, and a breakdown of the daily charge out rate for each of the people who are proposed to carry out the work. With respect to the other components described in the Terms of Reference an hourly charge out rate for completion of allocated work is required as it is intended this work will be allocated on a selected basis as requested by the Commission; and
- An assurance that the consultant has appropriate processes in place to give advance notice to the Commission of any actual, potential or perceived conflicts of interest that may arise during the course of the assignment.

Conditions of RFP

In receiving this RFP proposers are deemed to have agreed that they will meet all costs and expenses of whatever nature incurred in preparing and submitting proposals and in subsequent negotiations.

This RFP is issued as a means of information exchange between the parties. It is not intended to be a tender document, offer, or to in any way create an obligation on either party to conduct this RFP process in a particular manner or to commence negotiations to enter a binding contract on any of the matters contained in the RFP save as expressly provided in this RFP.

The Commission is not obliged to accept the lowest priced proposal.

The Commission may, at its sole discretion:

- Accept or reject any or all of the proposals whether or not the proposals conform to the requirements of this RFP. The Commission is not bound to accept any proposal from those submitted;
- Extend the period for submission of proposals;
- Re-advertise for proposals;
- Negotiate and/or conclude a formal contract with any party, whether or not that party has submitted a proposal;
- Request any party to clarify and/or address aspects of the proposal and to negotiate with that party or parties with a view to selecting the consultant(s);
- Revise, amend or clarify any aspect of the key requirements or outputs at any time;
- Waive any irregularities or informalities in the RFP process;
- Suspend or cancel the RFP process at any stage by notice;
- Vary the requirements and outputs during the course of any contract or arrangement negotiations with any proposer; and
- Discuss with the proposer the reasons why its proposal was accepted or rejected, but is not obliged to do so.

The Commission reserves the right to negotiate concurrently with one or more proposers pending execution of an agreed contract by the Commission.

Proposers are responsible for ensuring the accuracy of their proposal and accept all risks of any mistakes contained within that proposal.

Proposers and their officers, employees, agents and advisers must not engage in any collusion, anti-competitive conduct or any other similar conduct with any other proposer or any other person in relation to the preparation or lodgement of their proposals.

Proposers must not make any public statement in relation to this RFP process or their participation in the RFP process without the Commission's prior written consent.

The contents of all proposals shall remain confidential to the proposer and the Commission.

Attachments

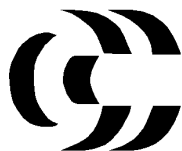
The following documents are included with this RFP:

- The Terms of Reference for the two proposed assignments; and
- The Commission's standard form of contract for consultancy services.

Contact

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COMMERCE COMMISSION

Terms of Reference

Regulation of Electricity Lines Businesses Customer Communication / Asset Management Plan Review

Background

Part 4A of the Commerce Act (the Act) requires the Commerce Commission (the Commission) to set thresholds for the declaration of control of large electricity lines businesses (lines businesses). The thresholds are a screening mechanism to identify lines businesses whose performance may warrant further investigation, and if required, control by the Commission.

The Commission has received threshold compliance statements from distribution businesses relating to their performance against a quality threshold (for the period ending on 31 March 2004). To comply with the quality threshold, each distribution business must, among other things, have demonstrated that it has meaningfully engaged with consumers to determine their demand for service quality (the customer communication criteria).

The Commission is reviewing information provided in relation to the customer communication criteria to evaluate the ways in which businesses engage with consumers concerning the trade-offs between price and service quality, with a view to developing possible best practice criteria for such engagement.

Part 4A of the Act also requires the Commission to develop an information disclosure regime for lines businesses. Under the information disclosure regime, as implemented in the Commission's *Electricity Information Disclosure Requirements 2004* (the Requirements), the Commission has recently received the current ten-year asset management plans for each distribution business. The Commission is required to summarise and analyse those plans in order to promote greater understanding of the performance of the businesses.

The review of the customer communication information provided in compliance statements, and the review of the asset management plans, is the subject of this consultancy assignment.

Scope of Consultancy Work

The Commission wishes to receive expert advice in the following areas. The consultant should:

Customer Communication

- recommend best practice² with respect to meaningful engagement by distribution businesses with consumers as outlined in clause 6(1)(e) of the Commerce Act (Electricity Lines Thresholds) Notice 2003, namely to:
 - (i) properly advise (or ensure that another person properly advises on its behalf) its customers about the price–quality trade offs available to them in relation to the goods and services provided by the distribution business; and
 - (ii) consult (or ensure that another person consults on its behalf) with its customers about the quality of goods and services that they require, with reference to the prices of those goods and services;
 - (iii) properly consider the views expressed by customers during and after that consultation; and
 - (iv) adequately take these views into account when making its asset management decisions.
- propose ways in which consumer engagement can be integrated into the asset management decision-making processes of distribution businesses;

Asset Management Plans

- recommend ‘best practice’ in terms of the planning, scope, structure, content of distribution business asset management plans and the consultation process for preparing those plans;
- propose specific revisions to the Commission’s prescriptions for information to be included in asset management plans, as currently outlined in Schedule 2 of the Electricity Information Disclosure Requirements 2004 and in Section 4 of the Electricity Information Disclosure Handbook of 31 March 2004, to incorporate recommended ‘best practice’; and
- review current asset management plans for compliance with the Commission’s Electricity Information Disclosure Requirements 2004 and the Electricity Information Disclosure Handbook of 31 March 2004, identifying specific areas of weakness and remedial actions required to comply with the Commission’s requirements.

Material Relevant to Consultant

In preparing the proposal the consultant is advised to refer to documents on the Commission’s website (www.comcom.govt.nz), in particular the

- Electricity (Information Disclosure) Requirements 2004

² For the purposes of this RFP, ‘best practice’ is a specific action or set of actions exhibiting quantitative and qualitative evidence of success together with the ability to be replicated and the potential to be adapted and transferred. It should not be considered to be current average or standard practice. It is likely not even the best of current practices but may contemplate a reasonable level of innovation, taking into account the current state of knowledge in the electricity industry internationally, developments in comparable methods in other areas and reasonable compliance costs in moving all distribution businesses to the proposed level of performance.

- Electricity Information Disclosure Handbook, 31 March 2004
- Commerce Act (Electricity Lines Thresholds) Notice 2003
- Commerce Act (Electricity Distribution Thresholds) Notice 2004

In addition, the consultant is advised to refer to distribution business websites with respect to their threshold compliance statements and asset management plans.

Key Requirements and Outputs

The successful consultant will be required to:

- meet with the Commission as required;
- regularly report to the Commission throughout the assignment;
- provide a draft report;
- take into account comments received from the Commission on the draft report; and
- provide a final report to the Commission.

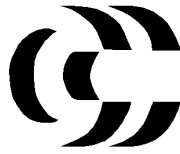
The Commission expects the following meetings would be required:

- an initial meeting at the start of the process to discuss in detail the consultant's proposal, agree to any changes in the proposed approach, and clarify the Terms of Reference;
- a presentation to Commission members and staff of the draft report;
- involvement in a possible industry workshop to discuss the findings and recommendations of the report; and
- a presentation to Commission members and staff of the final report.

The Commission expects the consultant to maintain close informal contact with the Commission and to provide regular feedback (at least weekly) on progress throughout the assignment.

At this stage the Commission expects that the draft report would be required by 4 February 2005. The timing of the final report would depend on whether the possible industry workshop eventuates.

END



COMMERCE COMMISSION

Terms of Reference

Regulation of Electricity Lines Businesses System Reliability

Background

Part 4A of the Commerce Act (the Act) requires the Commerce Commission (the Commission) to set thresholds for the declaration of control of large electricity lines businesses (lines businesses). The thresholds are a screening mechanism to identify lines businesses whose performance may warrant further investigation, and if required, control by the Commission.

The Commission has received threshold compliance statements from distribution businesses relating to their performance against a quality threshold (for the period ending on 31 March 2004). To comply with the quality threshold, each distribution business must, among other things, have demonstrated no material deterioration in reliability of supply over the previous 12 months (the SAIDI and SAIFI criteria).

The review of the system reliability data provided in compliance statements is the subject of this consultancy assignment.

Scope of Consultancy Work

The Commission wishes to receive expert advice in the following areas. The consultant should:

System Reliability

- recommend 'extreme event' and 'normal variation' criteria relevant to assessing breaches of the quality threshold;
- analyse the effects of extreme weather events on the reliability of supply, as measured by SAIDI and SAIFI data for individual distribution businesses on a selected basis as requested by the Commission, taking into account network maintenance practices; and
- review network maintenance practices to evaluate their contribution to the manifestation of non-weather extreme events (e.g. equipment failure) for individual distribution businesses on a selected basis as requested by the Commission, taking into account network maintenance practices.

Material Relevant to Consultant

In preparing its proposal the consultant is advised to refer to documents on the Commission's website (www.comcom.govt.nz), in particular the:

- Electricity (Information Disclosure) Requirements 2004
- Electricity Information Disclosure Handbook, 31 March 2004
- Draft Assessment and Inquiry Guidelines (Process and Analytical Framework), 7 August 2003, especially paragraphs 180 – 182
- Commerce Act (Electricity Lines Thresholds) Notice 2003
- Commerce Act (Electricity Distribution Thresholds) Notice 2004

In addition, the consultant is advised to refer to distribution business websites with respect to their threshold compliance statements.

Key Requirements and Outputs

The successful consultant will be required to:

- meet with the Commission as required;
- regularly report to the Commission throughout the assignment;
- provide a draft report including recommendations on extreme event and normal variation criteria;
- provide draft findings on the reliability performance of specific distribution businesses requested by the Commission;
- take into account comments received from the Commission on the draft report; and
- provide final report(s) to the Commission.

The Commission expects the following meetings would be required:

- an initial meeting at the start of the process to discuss in detail the consultant's proposal, agree to any changes in the proposed approach, timetable and clarify the Terms of Reference;
- a presentation to Commission members and staff of the draft report;
- a presentation to Commission members and staff of the final report.

The Commission expects the consultant to maintain close informal contact with the Commission and to provide regular feedback (at least weekly) on progress throughout the assignment.

A formal written draft report on extreme event and normal variation criteria should be submitted by 4 February 2005, with a final report being available by 25 February 2005.

END