



COMMERCE COMMISSION

Invitation for Expressions of Interest

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

Purpose

This invitation for expressions of interest is issued by the Commerce Commission of New Zealand (the Commission). This invitation for expressions of interest is an open invitation, and may be forwarded to any party.

The Commission anticipates engaging consultants to assist it in a range of areas relevant to its statutory obligations under Part 4A of the Commerce Act 1996 (the Act). In order to streamline the process of selecting consultants, the Commission is now seeking expressions of interest from suitably qualified persons.

The Commission proposes to use the expressions of interest to establish a list of potential advisers, from which it may select a shortlist for a range of specific tasks, as and when such work arises. Depending on the nature and value of such engagements, the Commission may shortlist several candidates, who would be invited to submit proposals for the work.

The deadline for submitting expressions of interest is **5.00pm, Friday, 24 September 2004**.

Context

The Commission is continuing its implementation of a regulatory regime for electricity lines businesses (lines businesses) under Part 4A of 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 recently received threshold compliance statements from distribution businesses relating to their performance against a quality threshold (for the assessment 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 criterion).

The Commission is currently examining breaches of the SAIDI and SAIFI criteria to determine what further action, if any, is required. In addition, the Commission is reviewing

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

information provided in relation to the customer communication criterion to evaluate the ways in which businesses communicate with consumers concerning the trade-offs between price and service quality, with a view to developing possible best practice criteria.

Under the information disclosure regime, as implemented in the Commission's *Electricity Information Disclosure Requirements 2004* (the Requirements), the Commission has recently received the 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.

Proposed Consultancy Assignment(s)

The Commission expects to engage expert advice relating to a range of areas including (in no particular order and not limited to):

- reviewing the Asset Management Plans of distribution businesses for compliance with the Requirements and for consistency with best practice;
- recommending best practice with respect to meaningful consultation by distribution businesses with consumers to ensure that consumers have had an opportunity to give their views about the quality of services they require, with reference to the prices of those services, and their views have been adequately taken into account;
- proposing ways in which consumer engagement can be integrated into the asset management decision-making processes of distribution businesses;
- analysing the effects of extreme weather events on the reliability of supply, as measured by SAIDI and SAIFI data for individual distribution businesses, taking into account network maintenance practices; and
- reviewing network maintenance practices to evaluate their contribution to the manifestation of non-weather extreme events (e.g. equipment failure) for individual distribution businesses.

Expressions of Interest

Expressions of interest in respect of this proposed assignment are invited from suitably qualified experts and/or companies (consultants). Expressions of interest should include the following information:

- name of consultant, ownership and background information;
- the area or areas (of those listed above) in which the consultant is expressing interest;
- the people who would carry out the work, along with their relevant experience in the particular areas; and
- any potential conflicts of interest and all electricity-related assignments undertaken for New Zealand clients in the past 24 months. Should any potential or perceived conflicts be identified, the management of these should be explained.

No Agreement

Participation in this expression of interest process is not to be taken as an indication that any consultant will be selected to participate in a further process to enter into arrangements to assist the Commission in relation to its electricity regulation activities. Any consultants selected will be required to sign a formal consultancy agreement and any obligations are expressly subject to such an agreement being signed.

Address for Expressions of Interest:

Expressions of interest should be sent to:

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Appendix: Additional Background Information

Targeted control regime

- 1 Subpart 1 of Part 4A of the Commerce Act (the Act) requires, among other things, the Commerce Commission (the Commission) to set thresholds for the declaration of control in relation to large electricity lines businesses (lines businesses) and to publish those thresholds in the *New Zealand Gazette* (the *Gazette*). If one or more of the thresholds are breached by a lines business, the Commission could further examine the business through a post-breach inquiry and, if warranted, control its prices, revenue or quality.
- 2 On 6 June 2003, the Commission set two thresholds in relation to lines businesses (distribution businesses and Transpower)—a price path threshold and a quality threshold.² The Commission published those thresholds in the *Gazette*³ and on the Internet, specifying how lines businesses would be assessed against the thresholds up to 31 March 2004 (distribution businesses) and up to 30 June 2004 (Transpower).
- 3 The price and quality thresholds provide for the Commission to assess distribution businesses against the price path threshold as at 6 September 2003 (the first assessment date) and against both thresholds as at 31 March 2004 (the second assessment date). Similarly, the thresholds provide for the Commission to assess Transpower against the price path threshold as at 6 September 2003 and against both thresholds as at 30 June 2004.
- 4 Following the assessment of lines businesses against the thresholds, the Commission must:
 - identify any lines business that breaches the thresholds;
 - determine whether or not to make a control declaration with respect to all or any identified lines business, taking into account the purpose of subpart 1; and
 - in respect of each identified lines business, either make a control declaration or publish the reasons for not making a control declaration.

Threshold compliance statements

- 5 The purpose of a threshold compliance statement is for a lines business to confirm compliance, or otherwise, with the price path and quality thresholds at the relevant assessment date. For the reliability criteria of the quality threshold, the compliance statement is to include evidence to this effect in the form of a self-assessment against the thresholds, including SAIDI and SAIFI figures and other data and information that supports the confirmation.
- 6 The customer communication criterion of the quality threshold requires each distribution business, during the period from the publication date (6 June 2003) to the second assessment date (31 March 2004), to:
 - 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

² Commerce Commission, *Regulation of Electricity Lines Businesses: Targeted Control Regime – Threshold Decisions*, 6 June 2003. This reference, along with all others referred to in this Background section, are available from http://www.comcom.govt.nz/electricity/Rep_Doc.cfm.

³ *Commerce Act (Electricity Lines Thresholds) Notice 2003*, 6 June 2003.

- 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; and
- properly consider the views expressed by customers during and after that consultation; and
- adequately take these views into account when making its asset management decisions.

Information disclosure regime

- 7 Under subpart 3 of Part 4A the Commission must require any or all lines businesses to disclose information pertaining to all or part of their business. Among other discretionary powers, the Commission may specify the form and manner in which such information is to be disclosed and the adoption of any methodology for preparing and compiling that information.
- 8 The Commission issued its first comprehensive set of information disclosure requirements for lines businesses on 31 March 2004 (the Requirements).⁴ The Requirements were largely the same as those prescribed in the *Electricity (Information Disclosure) Regulations 1999*, administered by the Ministry of Economic Development.

Asset management plans

- 9 Under clause 24 of the Requirements, each distribution business must disclose an asset management plan within three months of the beginning of the disclosure year. Each asset management plan must contain, at a minimum, the information specified in Schedule 2 of the Requirements.

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⁴ Commerce Commission, *Electricity Information Disclosure Requirements 2004*, 31 March 2004, which were amended on 7 May 2004 by notice in the *New Zealand Gazette: Commerce Act (Electricity Information Disclosure Amendment Requirements) Notice 2004*.