

## COMMERCE COMMISSION

# Regulation of Electricity Lines Businesses

## Reset of Thresholds

### Process Paper

#### Purpose

- 1 The Commerce Commission (“the Commission”) is required under subpart 1 of Part 4A of the Commerce Act 1986 (“the Act”) to set thresholds for the declaration of control in relation to electricity lines businesses, including Transpower. The current thresholds applying to distribution businesses have been in place since 1 April 2004 and are due to expire on 31 March 2009. Prior to their expiration it will be necessary to define a set of thresholds to apply for the next regulatory period, 1 April 2009 – 31 March 2014.
- 2 This paper broadly outlines the main steps the Commission intends to follow in resetting the distribution businesses thresholds.

#### Targeted Control Regime

- 3 Part 4A of the Act contains provisions relating to a regulatory regime for large electricity lines businesses to be implemented by the Commission. This includes a targeted control regime, relating to goods and services supplied by lines businesses, in subpart 1.
- 4 Under subpart 1 of Part 4A, the Commission is required to set thresholds for the declaration of control in relation to lines businesses. It is required to assess lines businesses against these thresholds, identify those businesses that breach, and determine whether or not to declare control.
- 5 The Commission implemented two thresholds to apply to distribution businesses during the regulatory period beginning 1 April 2004: a price path threshold and a quality threshold.

#### Resetting the Thresholds

- 6 As part of its responsibilities and functions under Part 4A of the Act, the Commission now intends undertaking a review of the thresholds, including consultation with interested parties. The review will culminate in the setting of new thresholds for the next regulatory period beginning 1 April 2009.
- 7 The Commission is now preparing for initial rounds of consultation on key issues relating to the review. While no preliminary decision has been made on the form of thresholds, the Commission is of the view that the current broad structure should form

the initial basis for the new regime. While it believes the Government's aim for "regulatory stability, transparency and certainty"<sup>1</sup> will be served by a certain degree of continuity, the Commission is open to considering alternative options.

## **Process Outline**

- 8 The Commission currently envisages that the reset process will consist of four consecutive stages, each with a significant consultative element. These four stages are as follows:
  - i. discussion stage;
  - ii. methodology stage;
  - iii. decision stage; and
  - iv. technical drafting.
- 9 These project stages will contain progressively more detail on the proposed thresholds and seek to address and draw conclusions on particular issues as the project proceeds. However, some issues will be assessed throughout the reset process. In particular, these will include any indicative outcomes of the MED review or outputs of the information disclosure review.
- 10 The discussion stage (stage 1) will consider the overall structure and type of thresholds to be applied to lines businesses and will consist of two consultative packages. The first will present research and consider issues relating to network quality and reliability measures. A second paper will be broader in scope and consider the overall structure and type of thresholds and is likely to discuss issues such as investment incentives, price/quality trade-offs, and other pricing related issues.
- 11 The methodology stage (stage 2) will include a comprehensive consultation paper proposing the detailed form of thresholds, the applicable formulae and an preliminary indication of the range ("bandwidth") of threshold levels.
- 12 The decision stage (stage 3), will include a two step consultation process and related conference. It will propose the final threshold levels to be applied to the individual lines businesses/groups.
- 13 The technical drafting stage (stage 4) will consult on the Gazette notice to be used to set the thresholds.

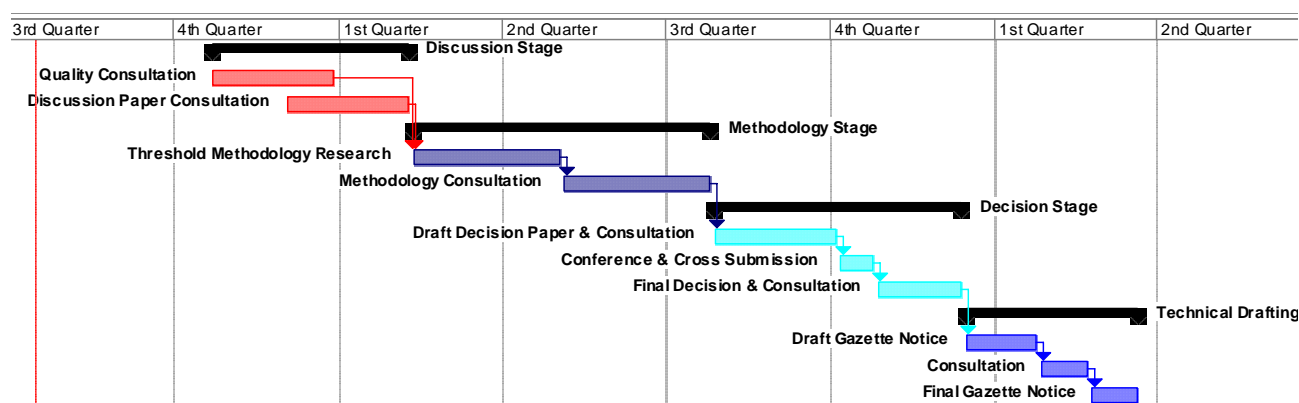
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<sup>1</sup> Government Policy Statement to the Commerce Commission, August 2006

## Indicative Timetable

- 14 The table and Gantt chart below summarise the main consultative steps the Commission intends to follow, as far as possible, when resetting the thresholds. Milestone dates are indicative and will vary in such a way that reflects the direction and precedence of particular consultations and decisions. It should be noted that given the project is in its early stages both the order and timing of tasks are indicative and are subject to change.

Indicative Dates	Milestones	Stage
July 2007	The Commission formally signals its intention to begin the threshold reset process with a view to having new thresholds in place on 1 April 2009	--
October 2007	Publication of and consultation on options for an updated quality threshold	1
November 2007	Publication of and consultation on a discussion paper focussing on the overall structure and options for the price component of the regime	
May 2008	Publication of and consultation on the methodology paper	2
September 2008	Publication of and consultation on the draft decision paper	3
October 2008	Conference and cross submissions on the draft decision paper	
November 2008	Price path (or equivalent pricing focussed) threshold levels published	
December 2008	Publication of the final decision paper <sup>2</sup> (may incorporate a short consultation)	
February 2009	Publication of and consultation on draft Gazette notice	4
1 April 2009	Publication of final thresholds decision	
1 April 2009	New threshold regime to begin following publication of Gazette notice	



30 July 2007

End

<sup>2</sup> Published subject to finalisation of technical details following comments from interested parties on the draft Gazette notice