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Response to the Commission proposed process for 2020 DPP reset

Dear Matt

Thank you for the opportunity to provide feedback on the Commission's paper headed "Requesting feedback on recent customised price-quality path process". We value the opportunity to assist the Commission to improve the CPP process to make it fit for purpose for all stakeholders.

Our overall impression is that the paper covers a wide range of topics, suggesting to us that the Commission is looking to add to the CPP IM requirements, largely to address areas for potential improvement in Powerco's CPP.

This being the case, we are concerned that the Commission sees the Powerco CPP as the new normal and is expecting more from future CPP applications which will make them increasingly unachievable for most EDBs. Powerco is a large well-resourced EDB that invested considerable time and resource in preparing theirs under the existing CPP IMs. Adding to the IM requirements may make CPPs an unrealistic option for others, which is contrary to the long-term interests of consumers.

ENA members consider that most of the topics raised can be dealt with by the Commission being clear about its expectations. Some of the Commission's suggestions are options that an EDB might consider when preparing an application, but not things that need to be included as compulsory requirements in the IMs themselves. The diverse nature of the individual EDB networks and customer bases mean that each CPP will be unique, and tighter CPP rules will increase cost and complexity contrary to the objectives of the consultation. EDBs may bypass the opportunity to use a CPP as a consequence, when it may be the better form of regulation for them and promote better outcomes for consumers.

We share our detailed thinking on the topics for feedback in Attachment A below, but up front we emphasise our view that the use of cost-benefit analysis is not appropriate for evaluating a CPP application for reasons that we articulated in 2016.

Attachment A

We offer the following comments for your consideration.

Consideration of alternatives. ENA members are aware of, and support, the transmission alternatives principles that Transpower offered in the recent consultation on transmission alternatives engagement process. Members consider that the Commission should carefully weigh up the usefulness of a formal process as opposed to using a principled approach as Transpower suggests. The difficulties with conducting cost-benefit analysis apply as much to alternatives as they do to EDB capex and opex. It may not always be appropriate to market test for alternative solutions, where EDBs have particular supply obligations. For these reasons the CPP IMs should retain their current flexibility and continue to leverage the asset management plan disclosure requirements in this respect.

Use of cost benefit analysis. We have commented on the practical issues that need to be confronted when thinking about cost-benefit analysis of CPP proposals. We suggest the reliability of any CBA is likely to be very low and will not be worth the effort regardless of whether they are conducted by the EDB before submitting or by the Commission post submission. We remain of the views expressed when we submitted on the CPP processes during the IM review in 2016. The CPP IM includes specific evaluation criteria and an expenditure goal which adequately reflects the full range of objectives specified in s52A purpose statement and the range of outcomes that EDBs are required to deliver. Cost benefit analysis is a poor substitute for these requirements, although we note that it is a technique which may be applied in assessing components of a CPP proposal. The CPP IMs appropriately allow for a range of techniques to be used when preparing and evaluating proposals. This assists in meeting the cost and complexity objectives stated in the consultation paper.

Long term pricing impact. ENA members are very supportive of the Commission desire to see greater engagement with consumers by EDBs. ENA and members have consulted with Powerco about the successful consumer engagement during the CPP process, in particular to understand what worked, what did not and why. Pricing impacts are part of this dialogue, and for us, the CPP dialogue has reinforced the earlier feedback from EDBs that long term (post next DPP/ CPP period) are hard to identify and communicate to consumers with confidence. EDBs should have flexibility in how they approach this aspect of their CPPs, particularly as there is wide discretion in how price-quality paths are reset following a CPP.

Calculating revenue and price changes. ENA members agree that there should be a focus on the price impact on a typical customer, but we stop well short of supporting a prescriptive approach to this task. We consider that the priority is to signal to consumers in a fair and reasoned (maybe in a “standardised”) manner what the impacts will be in their region from “their” CPP. Comparisons with other EDBs matter less.

Delivery and accountability of CPP commitments. ENA members acknowledge that understanding the “live” progress with the CPP will be of interest to stakeholders including the Commission and consumers. However, the ENA cautions against an overly prescriptive and granular accountability mechanism which dis-incentivises EDBs from innovating, refining, and substituting within their expenditure allowances in response to their operating environments. This would be inconsistent with the purpose statement and the long-term interests of consumers. Additional compliance also comes at a cost, which is ultimately borne by consumers.

Link between price and quality. We look forward to further opportunities to discuss with the Commission the role of asset criticality frameworks for EDBs in their asset management and planning, however we do not consider there is a requirement to incorporate it directly into the CPP IMs at this time.

Consumer consultation. As the Commission is aware, EDBs are active in their engagement and consultation with consumers across a number of subject areas – topical at the moment are Quality of Service measures and distribution pricing reform. We are in the process of building up experience and a stock of knowledge that will assist both CPP and DPP regulatory resets as well as with operational matters that EDBs face every day.

Verification. ENA members support the role of the verifier in assessing CPP proposals before they are submitted and believe this is consistent with achieving high quality CPPs. While not being party to the verification processes undertaken on the recent CPPs, the ENA considers that it is not appropriate for draft verification reports to be made available. The draft verification report highlights areas of a CPP proposal for reconsideration or refinement. It may also contain errors and reflect misunderstandings. The ENA considers there is little value in making this interim report available, and it is more likely to be counter-productive, diverting effort away from the final proposal, and possibly unduly influencing views on the final CPP proposal.

Defining and applying proportionate scrutiny. The ENA encourages the Commission to seek out opportunities to apply proportionate scrutiny when assessing CPP proposals. This includes acknowledging the contributions of the independent verifier and auditor in evaluating CPP proposals and avoiding wherever possible replicating this work. In addition, ENA members suggest that the primary drivers for each CPP application, and the scope and scale of a CPP relative to a DPP provide relevant direction to the Commission when assessing when and how to apply proportionate scrutiny. The ENA encourages the Commission to make more transparent to stakeholders when and how it may apply proportionate scrutiny. This will assist applicants and other stakeholders in better understanding the CPP application and assessment process.

Attachment B

We have a few comments as follows:

- The Commission should avoid being prescriptive about formula driven standardised revenue and price analysis. The pricing impact analysis should be relevant to the EDB concerned. Standard formats for pricing impacts may help improve transparency and understanding, but

standard assumptions are likely to be misleading (for example, use of the average consumption levels of the average residential consumer).

- It is better to provide guidelines and/or principles and to be open to differences between EDBs.
- The important thing is for consumers to be able to see the impacts of the CPP on their electricity bills in the best and fairest way possible by the EDB. Don't get too fancy and confuse consumers or provide something that lacks credibility.
- Also, care needs to be taken when defining the DPP counterfactual, especially where a CPP extends beyond the current DPP period. The same issue applies for the long-term pricing impacts, ie: beyond the CPP regulatory period. The proposed approach in Attachment B of the paper is a very simple approach which may potentially result in misleading outcomes. Accordingly, the ENA cautions against prescribing a standard approach, without allowing for flexibility to reflect the circumstances of the particular CPP applicant.

Once again thanks for the opportunity to provide feedback.

Yours sincerely



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