



24 May 2013

John McLaren
Chief Adviser
Regulation Branch
Commerce Commission

By email: regulation.branch@comcom.govt.nz

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Dear Mr McLaren

Feedback on process for setting default price-quality path

1. Introduction

Wellington Electricity Lines Limited (**WELL**) welcomes the opportunity to provide feedback to the Commerce Commission (**Commission**) on its process for re-setting the 2010-15 Default Price-quality Path (DPP).

WELL's feedback is structured as follows:

- Section 1 provides feedback on the Commission's communication strategy;
- Section 2 provides feedback on the DPP reset decision papers and models; and
- Section 3 provides feedback on the use of information requests.

2. Communication strategy

WELL commends the Commission for its communication process throughout the DPP reset. In particular:

- The Commission's willingness to listen to the views of Electricity Distribution Businesses (**EDB**), to meet to discuss specific issues of importance and to make its consultants available for discussion when required;
- The process update papers were valuable for ensuring that WELL's internal resources could be made available to respond to consultation documents;
- The website was well structured and easy to navigate;
- Decision documents were clear and concise and written in plain language; and
- Adequate time was provided for stakeholder responses to consultation documents.

3. Content of DPP reset decisions and models

WELL's key concern with the DPP reset decisions and models is that each time a new decision was released the Commission had made extensive and unexpected changes to the method proposed to reset the starting prices.

The Commission's draft and final decisions have real and immediate commercial impacts. The Commission's headline indicative starting price adjustment changed considerably each time a new decision was released and this induced immediate responses from WELL's debt providers and equity holders. This was exacerbated in the draft decision by a misleading indicative starting price adjustment which did not factor in the most recent information available about actual inflation and quantities.

The financial models released alongside the decisions were extremely complex, difficult to follow, particularly in relation to cash flow timing assumptions, and difficult to match back to the individual building block components. Changes to the financial models resulting from changes in the Commission's methods between decisions were hard to identify.

WELL suggest that in future the Commission should:

- Undertake more internal thinking and engagement with regulated businesses before publishing methods, models and headline figures;
- Ensure that headline figures published are based on the most recent information and accurately indicate the expected impact on an EDB's pricing; and
- Develop financial models and explanatory notes that are easier to follow and are more suitable for public consumption. The individual building block components should clearly be able to be tracked through the financial models.

4. Information requests

During the DPP reset process, WELL and other EDBs made repeated submissions expressing concern regarding the numerous information requests made by the Commission. Without repeating those submissions, WELL reminds the Commission that responding to repeated information requests is considerably costly, time consuming and frustrating for EDBs.

WELL considers that the number of information requests issued by the Commission during the DPP reset process reflected the constant changes in the Commission's method for resetting starting prices. Again more internal thinking and engagement with the industry before issuing ad-hoc information requests would reduce the number of requests that need to be made.

WELL suggests that, if additional information is required for the next DPP reset, the Commission should issue a draft information request well in advance of the DPP reset process and it should not finalise the information request until it is sure it has identified all of the information it requires. This type of process would also provide more time for EDBs to prepare for the upcoming information request.

5. Closing

WELL appreciates the opportunity to provide feedback to the Commission regarding the DPP reset process and is happy to discuss any of the matters raised. Please do not hesitate to contact Megan Willcox, Senior Policy Analyst, Regulation, on (04) 915 6126 or mwillcox@welectricity.co.nz if you have any questions.

Yours sincerely



Greg Skelton
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Wellington Electricity Lines Limited