

23 April 2013

Electricity distributors,  
Gas pipeline businesses,  
Consumers and representatives,  
and any other interested parties

Dear colleague

### **Feedback on the process for setting default price-quality paths**

1. This letter seeks your feedback on the process we followed to:
  - 1.1 reset the default price-quality paths for electricity distributors; and
  - 1.2 set the default price-quality paths for gas pipeline businesses.
2. We concluded consultation and published our decisions on the default price-quality paths for electricity distributors on 30 November 2012 and for gas pipeline businesses on 28 February 2013. This marks a major step in implementing the new Part 4 of the Commerce Act.
3. The attachment to this letter summarises the process we followed. Your feedback will help us understand what worked well, what could be improved, and how any improvements could be made. These lessons will be used to build on our processes for future resets.
4. Submitters provided many useful views on technical issues throughout the consultation process. We would like to thank those of you who engaged on these issues, and we remain grateful for the constructive submissions and cross-submissions. We are also appreciative of the effort that went into suppliers' responses to information-gathering requests.
5. We are not seeking any further views on the technical issues involved in setting default price-quality paths. Our reasons for these decisions are set out in our final reasons papers. These decisions were informed by extensive consultation and are now finalised.

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**Your feedback**

6. We would welcome feedback on any aspect of our process. The areas that we are particularly interested in receiving views on are set out in the Attachment.
7. We invite you to provide any feedback by 24 May 2013. Please address your responses to:  
  
John McLaren (Chief Adviser, Regulation Branch)  
c/o regulation.branch@comcom.govt.nz
8. Responses should be provided in a file format suitable for word processing, rather than the PDF file format.

Yours sincerely,



Sue Begg  
Deputy Chair  
Commerce Commission

## **Attachment: Overview of process**

- A1. This attachment sets out the process that we followed for:
- 1.1 resetting the electricity distribution default price-quality paths; and
  - 1.2 setting the initial gas pipeline default price-quality paths.
- A2. An outline of the process we followed for each sector is set out in tables A1 and A2 at the end of this attachment.
- A3. Several unique factors affected the process that we followed.
- A3.1 The process was superseded by the High Court's direction on 26 September 2011 to determine an input methodology for starting price adjustments. This requirement was subsequently overturned by the Court of Appeal on 1 June 2012. The Supreme Court then upheld the Court of Appeal's decision on 15 November 2012.
  - A3.2 The High Court also required us to re-determine input methodologies to specify cost allocation, asset valuation, and the treatment of taxation as applicable to default price quality paths. We re-determined the input methodologies on 30 September 2012.
  - A3.3 The process for resetting the default price-quality paths for electricity distributors had to be completed within nine months of the publication of the input methodologies.
- A4. Specific areas that we are interested in feedback on are set out in the sections below. These areas are intended as a guide; feedback on other areas related to process is welcome.

### *Information requests*

- A5. We welcome feedback on the information gathering requests that we issued during consultation. Information on the requests (including the reasons for these requests) can be found in Attachment I of each of the final reasons papers for the default price-quality paths.
- A6. We particularly appreciated the input of the Electricity Networks Association when designing the format of our 18 April 2012 information-gathering request on revenue. We are interested in feedback on that process, and how similar engagement could be undertaken in future.

### *Consultation on the draft determinations*

- A7. We would like your views on the appropriate time for consultation on the drafting of the determinations. There were limited submissions on the drafting of the determinations at the draft decisions phase, but significantly more suggestions were provided on the near final determinations.
- A8. We would like feedback on how useful the earlier versions of the determinations were. We would also like to know whether a longer consultation round on the draft determination would be preferred later in the process instead of consultation on earlier versions.

### *Financial model*

- A9. Your feedback is welcome on the process for explaining the financial model to those interested. We are open to suggestions about how to simplify the presentation, and make it more transparent. However, modelling the current and projected profitability of suppliers is inevitably associated with a moderate degree of complexity. For example, we are required to recognise the timing of different cash flows.
- A10. For example, we would like to know which of the two approaches suggested in submissions you would prefer, either:
- A10.1 changing the presentation of the model (as suggested by Powerco);<sup>1</sup> or
- A10.2 keeping the current presentation because it is already relatively well understood but continue to work with those interested to improve their understanding the model (as suggested by Unison).<sup>2</sup>
- A11. Other observations on the process for the financial model would also be welcome, such as the format and timing of the question and answer sessions. These sessions were held after interested parties had a chance to familiarise themselves with the model.

### *Process updates*

- A12. We would like to hear your thoughts on the process updates that we issued. These were issued to keep interested parties informed of our process and any major changes in that process. We would like to know whether you found these updates helpful, and if the frequency and content was appropriate.

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<sup>1</sup> Powerco, *Submission on the Revised Draft Reset of the 2010-15 Default Price-Quality Paths*, 1 October 2012, pp16-17.

<sup>2</sup> Unison Networks Limited, *Submission on Revised Draft Reset of the 2010-15 Default Price-Quality Paths*, 1 October 2012, p17.

*Analyst briefings*

A13. We would like to know your views on the format and timing of the analyst briefings. We held these sessions the mornings that our draft and final decisions were released. They were intended to give financial analysts and industry participants an early overview of our decisions, and a chance to ask any initial questions.

*Other areas of interest*

A14. Beyond the areas noted above, there are several other areas that you may wish to provide feedback on. For example we would be interested in your views on:

A14.1 whether we were available when you had queries or concerns;

A14.2 how clear our documents were, particularly those that explained the underlying rationale for our final decisions;

A14.3 whether there were enough opportunities for you to put forward your views on the process; and

A14.4 the length of the timelines for responses to consultations and information requests.



**Table A1: Key dates in the process for electricity distribution services**

<b>Date</b>	<b>Electricity distribution</b>
5 February 2010	Further Work on the Reset Default Price-Quality Path for Electricity Distribution Businesses: Process Paper
3 May 2010	Further Work on the Reset Default Price-Quality Path for Electricity Distribution Businesses: Updated Process Paper
5 August 2010	Starting Price Adjustments for Default Price-Quality Paths Discussion Paper
13 August 2010	2010-15 Electricity Distribution Default Price-Quality Path Refinements Discussion and Draft Decisions Paper
14 February 2011	Starting Price Adjustments for Default Price-Quality Path for Non-Exempt Electricity Distribution Businesses: Consultation Paper on Draft Information Request and Process Update
21 April 2011	2010-15 Default Price-Quality Path Starting Price Adjustments and Other Amendments: Update Paper
19 July 2011	2010-15 Default Price-Quality Path for Electricity Distribution
15 September 2011	Reset of 2010-15 Default Price-Quality Path for Electricity Distribution Businesses: Consultation Paper on Electricity Volume Projections
19 June 2012	Process Update – Default Price-Quality Paths for Electricity Distribution and Gas Pipeline Services
21 August 2012	Revised Draft Reset of the 2010-15 Default Price-Quality Paths
5 September 2012	Q and A session on the financial model
19 November 2012	Implementation of the Proposed Reset of the 2010-15 Default Price-Quality Path
30 November 2012	Resetting the 2010-15 Default Price-Quality Paths for 16 Electricity Distributors

A15. The documents in Table 1 can be found at:

<http://www.comcom.govt.nz/2010-2015-default-price-quality-path/> and

<http://www.comcom.govt.nz/2010-2015-default-price-quality-path-before-2012/>

**Table A2: Key dates in the process for gas pipeline services**

<b>Date</b>	<b>Gas pipeline</b>
24 July 2009	Default/Customised Price-Quality Regulation – Setting of the Default Price-Quality Path for Suppliers of Gas Pipeline Services: Process Paper
9 October 2009	Default/Customised Price-Quality Regulation – Setting of the Default Price-Quality Path for Suppliers of Gas Pipeline Services: Updated Process Paper
12 April 2010	Initial Default Price-Quality Path for Gas Pipeline Businesses: Issues Paper
5 August 2010	Starting Price Adjustments for Default Price-Quality Paths Discussion Paper
1 April 2011	Initial Default Price-Quality Path for Gas Pipeline Businesses: Discussion Paper
3 June 2011	Default Price-Quality Path for Gas Pipeline Businesses Draft Information Requests and Process Update: Consultation paper
22 August 2011	Setting of Starting Prices for Gas Pipeline Businesses under the Initial Default Price-Quality Path: Discussion Paper
29 November 2011	Initial Default Price-Quality Paths for Gas Pipeline businesses: Draft Reasons Paper
3 February 2012	Initial Default Price-Quality Paths for Gas Pipeline Services – Deferral of Commencement Date: Draft Decision
29 February 2012	Initial Default Price-Quality Paths for Gas Pipeline Services – Deferral of Commencement Date: Final Decision
19 June 2012	Process Update – Default Price-Quality Paths for Electricity Distribution and Gas Pipeline Services
24 October 2012	Revised Draft Decision on the Initial Default Price-Quality paths for Gas Pipeline Services
7 November 2012	Q and A session on the financial model
8 February 2012	How we Propose to Implement the Default Price-Quality Paths for Gas Pipeline Services
28 February 2013	Setting Default Price-Quality Paths for Suppliers of Gas Pipeline Services

A16. The documents in Table 2 can be found at:

<http://www.comcom.govt.nz/initial-default-price-quality-path/>