

# Electricity Networks Association

7<sup>th</sup> Floor, Wellington Chambers, 154 Featherston Street  
PO Box 1017

Wellington, New Zealand 6140

Telephone: 64-4-471 1335 Fax: 64-4-496 5209  
E-mail [adj@electricity.org.nz](mailto:adj@electricity.org.nz)

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John McLaren  
Chief Advisor  
Regulation Branch  
Commerce Commission  
P O Box 2351  
Wellington

Email: [regulation.branch@comcom.govt.nz](mailto:regulation.branch@comcom.govt.nz)

Dear John

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

The Commission has invited interested parties to provide feedback on the process followed in resetting the default price path for electricity distributors. This invitation is set out in an open letter dated 23 April 2013. We welcome this opportunity and trust our comments are useful to the Commission as it prepares for the next reset.

In gathering feedback from members, we have asked them to cast their minds back over the three year period over which the reset decision was developed and ultimately determined. This period of time was unusual and we would not expect future resets to be so prolonged.

In the following paragraphs we summarise the key themes that have emerged from our discussions with our members subject to the DPP.

### Information gathering

The 2013 reset decision was challenging for all parties because it required suppliers and the Commission to implement key Input Methodologies (cost allocation, asset valuation etc) for the first time. The establishment of Initial RABs compounded this task. The information demands on EDBs during 2011 were particularly demanding. In this regard we make the following observations:

- the provision of spreadsheet templates greatly assisted EDBs and their auditors in this task
- support (by way of an issues register) was also helpful to EDBs and auditors
- we suggest that this process may be able to be further improved if there were a contact person in the Commission available by phone and/or email during key data gathering phases
- it was difficult to prepare some of the information required without fully understanding the context, ie: its intended purpose

- audit and governance processes (including Director certification) take time, and these need to be adequately provided for when setting deadlines for information provision. In some instances the deadlines were too tight given the amount of information needing to be prepared, then audited and then certified
- in some cases the templates and supporting explanatory information may have been able to be improved if they had been tested with suppliers initially. This was the case for revenue weight data, with beneficial outcomes. The ENA would be happy to assist in this regard in future.

### **Approach**

While we acknowledge the determination of the DPP IMs prolonged the reset process, the core approach and model did take some time to bed down. This required substantial rework and re-thinking throughout the process. While the IMs have now determined some aspects of the method which will be applied in the future, we would encourage the Commission to signal its proposed approach early in the process and, as appropriate, to highlight for consideration those aspects of the method it particularly wishes to test through consultation.

Some members experienced substantial swings in their likely reset position through the development phases, without having a clear understanding as to which elements were likely to change and which were not (for example at one stage initial price steps were capped at 15%, and then later they were reduced to 10%). This resulted in substantial differences between different consultation phases in the expected revenue profiles of those businesses over the remaining DPP period (and for some businesses into the next DPP period). Within companies the swings involved caused tensions between certifying board members and managers when initial briefings proved to be misleading.

Another example is the changes made to the opex forecasting approach. We accept and support improvements being made throughout the consultation process. However we believe that at times there is insufficient explanation provided to interested parties about the reason for changes in approach, and justification for the new approach (for example why the new approach adopted generates the best outcome). We recognise that it is difficult to know in advance when further adaptation will be required but it would be helpful for the Commission to signal, where it can, that changes are likely to be considered.

### **Modelling**

We fully support access to the Commission's models as this greatly assists EDBs to understand the proposals and to test the assumptions made and data used. In this respect our members found the model workshops of considerable value, although we suggest that care should be taken to pitch the explanations at a level that meets the needs of the audience.

In our view these workshops would be of most use early rather than later in the process. They are most beneficial after our members have had a little time to familiarise themselves with the models, and submit questions. In addition we suggest that where errors are discovered in the models (including errors in the data

inputs) the models are reissued to interested parties at the time the errors are discovered and corrected, ie: before the next consultation phase.

Given the complexity in the models and the investment made to date in understanding them, it would be useful if the Commission ensures it is able to explain (in some detail) any changes it makes to the models for the next reset consultation, with appropriate reconciliation examples.

In addition, we suggest that the DPP revenue reset models would be enhanced by the inclusion of annual ROI projections for each EDB derived from the projected building block costs and DPP revenues. This would assist EDBs in understanding the Commission's modelling and to communicate the implications of it to their stakeholders.

#### **Draft Determinations**

We understand that the Commission received most feedback on the draft determinations themselves at the final stage of consultation, even though these were made available earlier, at the Draft Decision stage. We believe that it is important to see these drafts earlier because this aids understanding of the Draft Decision. We also suggest that preparing a draft determination at Draft Decision stage ensures that the proposed approach is able to be applied in practice, and may highlight unforeseen consequences and issues.

We appreciate our focus has tended to be on the method and approach in our earlier submissions, rather than technical drafting. It would be useful to understand whether the Commission would find earlier feedback on the drafting of the determination useful. The opportunity to respond to the technical drafts is important to our members. The relatively short timeframe permitted for this is manageable, if we have advance warning of the relevant dates.

#### **Process Updates**

Finally, regular process updates are useful to members, particularly where they signal in advance key dates, processes (including future information requests) and issues to be considered.

We trust this has been of use to you, and we would be happy to discuss the feedback provided in this letter with you.

Yours sincerely



Alan Jenkins  
Chief Executive