9 November 2017

Open letter

Dear Stakeholder

Our priorities for the electricity distribution sector for 2017/18 and beyond

Purpose of this open letter

1. The purpose of this open letter to stakeholders in the electricity distribution sector is to build on the recent release of the Commission's 2017/18 priorities by:

   1.1 expanding on what our priorities mean in practice for our work regulating electricity distributors in 2017/18 and beyond; and

   1.2 seeking your feedback on our proposed focus areas for our work in the sector, to help ensure we are targeting our efforts on the highest value areas, and choosing the most effective tools available for encouraging improved sector performance.

2. We welcome your feedback on this open letter by the end of this year.

We recently published our 2017/18 priorities

3. Our vision is that New Zealanders are better off because markets work well, and consumers and businesses are confident market participants. With that vision in mind, each year we identify a number of priorities.

4. For 2017/18, the priorities relevant to our work in the electricity distribution sector are:[1]

   4.1 greater understanding about the performance of infrastructure industries;

   4.2 making information about infrastructure industries accessible to a wider audience; and

   4.3 an increasingly efficient and effective process for assessing price-quality path proposals by regulated suppliers.

5. We also have an enduring priority of monitoring compliance with regulatory requirements, and taking enforcement action where necessary.

6. This letter expands on what those priorities mean in practice for our work in the electricity distribution sector.[2]

Greater understanding about performance of infrastructure industries

7. For the electricity distribution sector, this priority is about:

   7.1 improving our understanding about investment levels and associated incentives;

   7.2 sharing that knowledge with our stakeholders, particularly those who would benefit from knowing more about network condition and resilience; and

   7.3 using this understanding to help us decide whether there is anything we need to change in our regulatory approaches, especially to investment and quality.

8. Improving understanding about electricity distributors' performance is an important first step in moving towards a sector in which electricity consumers have confidence whether their local lines business is delivering the services they demand at appropriate price levels. While there are a range of performance areas we are charged with incentivising, at this point we consider that better understanding the risks associated with over- and under-investment, and impacts on service quality, will provide the greatest benefit to consumers over the long term.

9. There have been a number of indications that greater understanding of incentives for investment and quality is needed, including the drivers behind Powerco's application for a customised price-quality path (CPP), and a number of instances of significant non-compliance with the quality standards we have set for distributors subject to price-quality regulation.[3] Consumers have raised concerns about being expected to pay higher prices in the future to make up for past under-investment.

10. The industry is grappling with the question of the best way to manage long-lived assets built many decades ago, while taking into account the opportunities and risks that emerging technologies open up to distributors. Consumers have raised concerns that they might end up paying for new 'poles and wires' that might no longer be needed in a few years' time. More generally, distributors have to deal with an ever-increasing range of complex issues, including those related to new technologies, energy affordability, cybersecurity, health and safety, climate change and decarbonisation, often involving diverse stakeholder views.

Asset management is a key focus area

11. The performance of the electricity distribution sector is important to all New Zealanders. Already this year, we have seen commentary on the sector's performance from the International Energy Agency and the Office of the Auditor General.[4] Consistent with those agencies, we agree that key issues for the sector include distributors' ability to manage their assets effectively, to maintain resilient networks, and to do both of these in a changing environment.

12. As indicated at our Wellington and Auckland stakeholder functions in September, we see effective asset management as crucial for electricity distributors. Sound asset

management is an integral part of ensuring that distributors improve efficiency and provide services at a price and quality that reflects the demands of electricity consumers. However, assessing whether distributors' asset management decisions result in over- or under-investment is a challenge, given the typically long lifetimes of network assets. In addition, there can be a significant lag between assets deteriorating and quality reducing, and it can be difficult to set leading performance indicators that appropriately reflect the risk of poorer quality in the future.

13. As electricity distributors' asset management practices continue to mature, we would expect them to be increasingly focusing on, among other things:

    13.1 the health and criticality of their assets;[5]

    13.2 investment 'sufficiency'—the extent to which they are re-investing in assets at a prudent level; and

    13.3 appropriate levels of network resilience—the ability to maintain and restore electricity supply to consumers, particularly following high-impact, low-probability (HILP) events, such as earthquakes.

14. Within these areas, there are some questions we might expect industry participants and stakeholders to be asking. To what extent do electricity distributors:

    14.1 engage effectively with consumers to understand consumer preferences, such as trade-offs between price and quality (including reliability, security, hazard control, and resilience), and take those views appropriately into account in making asset management decisions?

    14.2 understand the condition of their assets, and have consistent and robust systems in place for collecting and managing asset-related data that are not just reliant on the knowledge of particular individuals?

    14.3 understand the most critical assets affecting network operation from both a reliability and safety perspective, taking into account the probability and consequence to consumers of asset failure?

    14.4 understand the links between planned expenditure and capacity, reliability, hazard control, and resilience outcomes?

    14.5 understand the full range of risks they are exposed to, including from HILP events, and have built into their asset management systems effective plans for the control, mitigation and reduction of those risks?

15. We recognise that different electricity distributors will be differently positioned to answer these questions, depending on the maturity of their asset management capabilities and practices, the network they are tasked with managing, and their

local operating environment.[6] Some examples of maturing practices we've seen recently include:

15.1 Wellington Electricity's consideration of asset criticality as it informs asset health-driven renewals expenditure;[7]

15.2 Powerco's improving asset management practices, including the asset criticality framework it intends to implement during the CPP regulatory period;[8] and

15.3 Transpower's work on enhancing its asset management framework to better take into account asset health and criticality.[9]

16. Effective asset management of aging networks will become even more of a challenge in a changing environment of new technologies—such as solar PV, storage and electric vehicles—and changing consumer preferences. Some distributors are already taking advantage of opportunities to integrate new technology into their networks.

Our work in the area of asset management

17. We are interested in highlighting examples of good asset management practices so that the benefits of best practice can be shared. However, we are also prepared to identify poor performance where we see it, and to consider the best ways to create appropriate incentives for poorer performers to improve.

18. A comprehensive asset management plan (AMP), based on effective engagement with consumers, is one of the core documents which form an essential part of managing any electricity distributor. All distributors are required to publicly disclose their AMPs under our information disclosure regime. By early next year, we intend issuing a brief report highlighting some examples of good asset management practices reported by electricity distributors in their most recent AMPs. Distributors are due to publish their next full AMPs in March next year, and we propose doing a more comprehensive report on those.

19. Performance monitoring does not just involve us reviewing information disclosed by electricity distributors. We look forward to increasingly getting out and talking with distributors about asset management and business issues, including the challenges they face, and their views of the future. This will include fact-finding sessions, such as our recent visits to a number of distributors.[10] We also recently carried out selected network site visits as part of the Powerco CPP proposal evaluation.

20. A particular focus of those visits was to better understand a selection of electricity distributors' approaches to asset renewals and vegetation management. We expect to make such visits an ongoing part of our work in future. We expect to share, and seek feedback on, some of the findings from these types of visits, in addition to our analysis of disclosed information. In some cases, that might be through public

reports, workshops and seminars, or in the first instance, through direct engagement with the businesses themselves, and their owners.

21. The challenge of emerging technologies was a focus of our input methodologies review (IM review) last year. In that review, we recognised we need to continue collaborating with MBIE and the Electricity Authority to understand the rate of deployment of new technologies, how they are used, and the impacts they are having.[11] AMPs provide one way for distributors to share information about the opportunities for, and lessons learned from, new technology deployment.

22. We are not only interested in the extent to which innovative practices by distributors are delivering greater efficiencies, but we will also be alert to any issues regarding competition in the market for new technologies. It is important that there is transparency about how new technologies are being treated and procured.

23. More generally, we also intend liaising with industry bodies, such as the Electricity Networks Association (ENA) and the Electricity Engineers' Association (EEA), on ways to encourage improved asset management practices in the sector. For instance, although the EEA's Asset Management Group publishes a number of guides, such as on risk-based vegetation management,[12] currently there are no industry guides on asset criticality or network resilience.

24. We are interested in your feedback on whether there are other topics we should be focusing on for our performance monitoring work. We are also interested in how distributors, and ourselves, can engage more effectively with consumer groups to better ensure service quality levels reflect consumer preferences.

Making information about infrastructure industries accessible to a wider audience

25. For the electricity distribution sector, this priority is about providing more accessible and engaging information about the performance of electricity distributors to a wider audience. This is core to the information disclosure regulation all distributors are subject to. 'Shining a light' in a way that makes distributor performance more easily understandable, will likely bring more stakeholders into these conversations and create increased incentives for performance improvement.

26. Making relevant information more accessible to sector stakeholders will also support our priority of better understanding distributor performance. For instance, making information easily accessible to owners of electricity distributors about good (or poor) examples of asset management will help them to better assess the relative performance of the networks they own compared to their peers.

We have released one-page summaries of electricity distributors' performance

27. This year we released one-page summaries of each electricity distributor's performance to more readily allow comparisons across distributors.[13] We have been encouraged by the initial level of discussion about supplier performance which has been generated, as well as the greater incentives created to ensure disclosed data

provides meaningful and accurate insights into their networks. These one-pagers are only a small first step and we plan to do more to make performance information more accessible over the coming year.

We are seeking feedback on our new web-based performance accessibility tool

28. In particular, today we released the first phase of a new web-based performance accessibility tool (PAT), to provide greater access to distributors' disclosed performance information.[14] Although most quantitative distributor disclosure data is already accessible on our website in Excel format,[15] many stakeholders have found that format difficult to work with. This new tool utilises Tableau, which is a leading data visualisation software package, to make performance information easier to navigate, use, present and interpret, both graphically and in tabular form.

29. In this first phase release of PAT, we have not yet made all disclosed data accessible, or taken advantage of the full functionality the software allows. For instance, in future we would expect content from our one-pagers to be accessible within this tool. Also, at this stage, PAT has not been fully integrated into our website, but we intend that doing so will be part of our planned overall website upgrade.

30. In the coming months, we expect to engage with electricity distributors on our proposal for the next phase release of PAT, likely comprising:

    30.1 an investment ratio dashboard (including proposed new ratios such as renewals-to-depreciation, and vegetation management spend-to-opex); and

    30.2 an asset condition dashboard.

31. In addition, we expect the next phase to allow easier comparison of distributors' key data and metrics to support relative performance assessment, and we will be seeking feedback on potentially appropriate peer groupings for this purpose.

32. We welcome your feedback on the usefulness and usability of this tool, including its scope, content, presentation and functionality, so that we can continue to improve the accessibility of disclosed information, and plan later phases of the tool's release.

Our information disclosure requirements

33. This year we have been undertaking a limited information disclosure regime amendment process, focusing on changes consequential to the IM review, as well as certain other targeted changes, such as our proposal to align disclosed asset health grades with the EEA's Asset Health Indicator Guide.[16] During that process, some submitters suggested a more comprehensive review of the information disclosure requirements might be warranted in the near future. Others suggested changes that might assist stakeholders to better understand how new technology is being integrated into distribution networks.[17]

34. Our current focus is on getting the maximum value out of the information already being disclosed under our current requirements. Now that we have had five years of information disclosed under the current requirements, we are increasingly well placed to do time-series analysis of data, which will be made more accessible through PAT. Nonetheless, we remain open to fine-tuning the disclosure requirements where clear improvements can be made.

35. For example, we would expect that, as part of our review of the 2018 AMPs, we are likely to identify areas where the AMP disclosure requirements could be improved. In addition, minor changes might be needed to ensure future disclosures are consistent with the 2020 default price-quality path (DPP) reset decision. However, a full review of the disclosure regime is not a priority for us in the near term. This may be something that we revisit following the DPP reset.

An increasingly efficient and effective process for assessing regulated suppliers' proposals

36. For the electricity distribution sector, the focus of this 2017/18 priority is on improving confidence in the CPP process for future CPP applicants, in a way that delivers maximum value for consumers. In addition, we are beginning to think about focus areas for the reset of the current DPP to ensure that there is adequate time to work through the most important issues before our final decision in November 2019.

We will identify 'lessons learned' at the end of each CPP process

37. We are currently evaluating Powerco's CPP proposal,[18] and a number of other regulated suppliers have expressed interest in applying for a CPP in the next couple of years. Noting that Powerco's is the first 'normal' CPP we have received (ie, the Orion CPP took place under the exceptional circumstances of the Canterbury earthquakes), these applications provide an important opportunity to demonstrate to suppliers and consumers that a CPP is a cost-effective option that can achieve greater long-term benefits for consumers where the specific circumstances of the supplier do not fit with more generic DPP approaches.

38. In implementing the DPP/CPP regime, we apply a principle of proportionate scrutiny.[19] This means we generally aim to accommodate suppliers' circumstances at a level of cost and scrutiny commensurate with the materiality of the changes to prices or quality experienced by consumers, within the constraints of that regime. Therefore, our process for assessing CPPs needs to be fit for purpose, with our effort tailored to complement other scrutiny, not create unnecessary cost, and ensure any 'hurdle' for suppliers to apply for a CPP is appropriate. While we are well aware of the cost to consumers of every extra dollar of revenue we allow, we must also be mindful of dis-incentivising investment that will increase net benefits to consumers over the long term.

39. Once we have completed each CPP process, we are committed to reflecting on what we can learn about further improving our CPP processes, building on the refinements introduced through the IM review.

We are seeking feedback on focus areas for the 2020 default price-quality path reset

40. As we explained in our IM review decision on CPP requirements, CPPs must be considered in the context of the DPP/CPP regime as a whole.[20] In order to ensure an effective DPP/CPP regime, we must consider not just making the CPP more cost effective, but also how the CPP fits with the DPP. As such, while initiating the formal 2020 DPP reset process is not an immediate priority, it is important we start thinking now about the bigger picture questions likely to influence the 2020 DPP reset. We seek your feedback on our initial thinking about possible focus areas for the 2020 reset, which is set out in the attachment to this open letter.

Monitoring compliance with regulatory requirements, and taking enforcement action

41. For the electricity distribution sector, this priority is about our on-going obligations to monitor compliance with regulatory requirements, and take enforcement action where appropriate. This is an enduring priority due to the potential significant impact on consumers, businesses or markets in New Zealand from non-compliance, whether for price paths, quality standards, or disclosed information.

42. The price path and quality standards operate in tandem to ensure electricity distributors are limited in their ability to extract excessive profits and are incentivised to provide services at the quality consumers demand. Enforcing breaches of price-quality paths is important to reinforce these incentives.

43. Our primary compliance focus at this point is deterrence of material breaches of price limits and quality standards. However, as we continue to increase the accessibility and use of information disclosure data, we will have a heightened interest in ensuring disclosed information is accurate and compliant.

We have limited experience with enforcement action to date

44. Our experience in resolving breaches of price paths and quality standards is growing, but still limited. To date, our focus in resolving price path breaches has been ensuring electricity distributors return over-recovered revenues to consumers so that distributors cannot benefit from breaching the price path.[21] To date, out-of-court settlement agreements have been our vehicle for this.

45. In terms of quality standard breaches, our focus has been on reviewing the circumstances that led to the breach, including relevant asset management practices. Most breaches to date have resulted in warning letters to the distributor that more serious action may be taken where we see repeat breaches. While each breach and investigation turns on its facts, we did not go beyond warning letters in those cases because we did not identify any serious fault on the part of the non-compliant distributors, any significant detriment to consumers as a result of the non-compliance, or any over-riding public interest in seeking court-imposed penalties. We did encourage all distributors to consider their asset management practices in light of some of the key findings from our investigations into a number of those breaches.[22]

46. We are currently reviewing a price path breach reported by Nelson Electricity,[23] and quality standard breaches reported by Vector, Aurora Energy and Alpine Energy.

We have a wide range of enforcement tools available

47. To date, we have relied on a limited number of our enforcement tools. However, warning letters and out-of-court settlement agreements are only two of the tools available to us.

48. Our enforcement response toolkit also includes court proceedings against companies or individuals involved in breaches of the price-quality path at one end of the spectrum, and education at the other end. We are prepared to use the full range of tools available to us as may be appropriate in the circumstances.

49. We acknowledge that the industry has been expecting guidance on our compliance and enforcement activities for some time. Equally, we want any guidance we publish to be meaningful. Therefore, once we have resolved the outstanding price path and quality breaches, potentially gaining more experience with the wider range of enforcement tools available to us, we expect there will be value in sharing how we went about resolving those breaches. In the meantime, we will continue to apply our high-level enforcement criteria of conduct, detriment and public interest.[24]

We welcome your feedback

50. Ultimately, in the electricity distribution sector, the regulatory regime we administer is intended to promote the long-term benefit of consumers of electricity distribution services. This letter has set out our current priorities and some proposed focus areas for contributing to that goal, using the range of statutory and non-statutory tools available to us.

51. Your feedback on our proposed focus areas within our high-level priorities is important to helping us ensure we are targeting our efforts to the areas that will result in the greatest net benefits to consumers over time. We are also interested in your views on how we can more effectively engage with stakeholders in the sector.

52. We welcome your feedback on this letter by the end of this year. Please provide your feedback to: Robert Bernau, Head of Energy, Airports and Dairy Regulation, Regulation Branch, c/o regulation.branch@comcom.govt.nz.

Yours sincerely

Nick Russ
General Manager, Regulation Branch
Commerce Commission

Attachment: Proposed focus areas for the 2020 reset of the default price-quality path

1. We are required to reset the current default price-quality path (DPP) for electricity distributors, which applies for a regulatory period from April 2015 to March 2020, by November 2019. The new path will take effect from 1 April 2020.

2. We have already honed our approach to setting DPPs for electricity distributors, and gas pipeline businesses, over a number of resets. Our starting point is we expect to apply a similar decision-making framework to that we applied in the 2015/16 review of the input methodologies (IMs) and the 2017 gas DPP reset. That means we propose only making changes from our 2015 approach to resetting the DPP for electricity distributors where those changes are likely to:

   2.1 better promote the purpose of Part 4 of the Commerce Act;

   2.2 better promote the purpose of default/customised price-quality path regulation; or

   2.3 reduce complexity and compliance costs.

3. Possible focus areas for the 2020 DPP reset might include:

   3.1 implementing IM changes made since the 2015 DPP reset;

   3.2 our approach to quality standards and the link between price and quality;[25] and

   3.3 our approach to forecasting capital expenditure (capex) and operating expenditure (opex).

We need to give effect to changes in the input methodologies

4. Some of the key IM changes made since the 2015 DPP reset, which we will need to implement for the 2020 reset, include:

   4.1 the option to reduce asset lives;[26]

   4.2 the move from a weighted average price cap to a revenue cap;[27] and

   4.3 changes to the incremental rolling incentive scheme (IRIS).[28]

Quality standards and the link between price and quality are a possible focus area

5. Setting appropriate quality standards, as well as quality incentive mechanisms where revenue (or price) can be linked to quality, supports the objective of ensuring distributors provide electricity distribution services to consumers at a level of quality reflecting their demand. We recognise, however, that there is a limit to how targeted any incentives for service quality can be through a price-quality path. It is not

necessarily an easy task to understand consumer price-quality preferences, or to translate those preferences into effective and enforceable standards and incentive mechanisms. Disclosure of information about distributor quality performance can provide complementary, and potentially more targeted, incentives for promoting this objective.

6. However, in terms of our approach to DPP quality standards and the link between price and quality, it might be appropriate to consider:

   6.1 other dimensions of quality, including their relative weighting. For example, should our measures of quality go beyond the current reliability limits (ie, SAIDI and SAIFI limits)?[29]

   6.2 whether quality standards should continue to be set based on network averages, or be disaggregated to more appropriately reflect the demands of particular consumer groups (eg, by location or type)?

   6.3 whether 'no material deterioration' remains the principle we should continue to use for reliability. To what extent have other factors, such as the effect of changes in health and safety legislation (eg, on live lines practices),[30] affected the appropriateness of using historic data to set reliability limits?

   6.4 the effectiveness of our approach to reliability limits in reducing 'false positives'. For example, how effective is the '2 out of 3' rule, setting the reliability limit at one standard deviation above the mean, and the treatment of extreme events?

   6.5 whether the link between price and quality could be improved. In particular, how effective are the existing revenue-linked quality standards? Should we consider other revenue-at-risk output measures?

Our approach to forecasting capex and opex is another possible focus area

7. The approaches for deriving key financial inputs to the default price path are already set out in the input methodologies. Therefore, as part of the reset, the most important decisions we need to make which affect the level of revenue electricity distributors may recover from consumers are those on forecast capex and opex over the DPP regulatory period.

8. There is always a risk of false precision when refining forecasting techniques. Nonetheless, in terms of forecasting capex and opex in a relatively low cost way, consistent with our principle of proportionate scrutiny,[31] it might be appropriate to consider:

   8.1 the extent to which the approach to capex and opex we took in 2015 remains fit for purpose for the 2020 reset. Does the approach we took to the 2017 gas DPP reset, which involved a greater level of tailoring the DPP to supplier circumstances, based on assessing AMP forecasts, offer any improvements?[32]

8.2 if we were to follow an approach to forecasting expenditure similar to that which we followed for the 2017 gas resets, or if we were to rely on the forecasts in electricity distributors' AMPs to any extent in forecasting expenditure, what feedback should we provide on AMPs before then?

8.3 what we can do to ensure how we set price-quality paths does not stand in the way of the ongoing application of emerging technology solutions to consumer and network issues. For example, should we consider aligning the incentives to spend capex versus opex to mitigate any tendency to favour traditional 'poles and wires' network solutions over non-network solutions, including those employing emerging technologies?

8.4 how we ensure consistency between forecast expenditure, and the quality standards and incentives we set; and

8.5 our observation that the confidence electricity distributors have in their forecasts typically reduces beyond 2 to 3 years. Could we mitigate the risks this creates, for both suppliers and consumers, by setting output measures and/or shortening the next regulatory period from 5 years to 4 years?[33]

For the 2020 DPP reset, we expect the issues to drive the process

9. We do not yet have a firm view on the timing and process we will adopt for the 2020 DPP reset. As in the IM review, we anticipate letting the issues drive the process. As such, we are interested in your views on the potential focus areas listed above. To ensure the 2020 DPP reset maximises the benefit our decision will have for consumers, we intend focusing our efforts on a small number of the most material issues, and put less effort into less significant areas.

10. In doing so, we will reflect on the process feedback we received from stakeholders following both our 2015 electricity distribution and 2017 gas DPP reset processes.[34] One process matter it will be useful for both us and stakeholders to consider in the nearer term is the extent to which industry working groups could be a useful feature of the 2020 reset process, and on what topics. For instance, for the 2015 reset, the Electricity Networks Association (ENA) established working groups on quality of supply as well as energy efficiency,[35] and we understand the ENA is already beginning to set up working groups on a number of topics ahead of this reset as well.

We welcome your feedback

11. As with the other aspects of this open letter, we welcome your feedback on our proposed focus areas for the 2020 DPP reset by the end of this year. Please also provide this feedback to: Robert Bernau, Head of Energy, Airports and Dairy Regulation, Regulation Branch, c/o regulation.branch@comcom.govt.nz.

Notes

1 Commerce Commission "2017/18 priorities" (July 2017), available at http://www.comcom.govt.nz/dmsdocument/15625.

2 For an overview of the Commission's role in the electricity industry, which includes competition and fair trading matters as well as economic regulation, refer to our fact sheet available at http://www.comcom.govt.nz/dmsdocument/9673. This open letter focuses specifically on our role in regulating electricity distributors under Part 4 of the Commerce Act.

3 Seventeen of the 29 electricity distributors, representing around four-fifths of consumer connections, are subject to price-quality paths that place limits on the revenue they can recover, and set minimum standards for the level of service quality they provide. There are two types of price-quality paths that electricity distributors can have. We set a default price-quality path (DPP) for all distributors not exempt from price-quality regulation, and this is the more generic and lower cost option. Any distributor then has the option to propose a customised path (CPP) to better meet its own particular circumstances. For an overview of customised price-quality regulation under Part 4 of the Commerce Act, refer to our fact sheet available at http://www.comcom.govt.nz/dmsdocument/9672.

4 International Energy Agency "Energy policies of IEA countries: New Zealand 2017 review" (February 2017), Chapter 7, Special focus 2: electricity distribution development, available at https://www.iea.org/publications/freepublications/publication/EnergyPoliciesofIEACountriesNewZealand2017.pdf; and Controller and Auditor-General "Managing the assets that distribute electricity" (June 2017), available at http://www.oag.govt.nz/2017/electricity-distribution/docs/electricity-distribution.pdf.

5 For example, the Electricity Authority recently recommended that supply-critical components should be given higher risk management priority than non-critical components even if the probability of occurrence is low: see Electricity Authority "Penrose Substation fire, 5 October 2014, Report on the inquiry conducted by the Electricity Authority under section 18 of the Electricity Industry Act 2010" (20 November 2015), paragraph 1.5.1, available at https://www.ea.govt.nz/dmsdocument/20148.

6 As well as requiring electricity distributors to disclose their asset management plans (AMPs), we also require distributors to disclose a self-assessment of the maturity of their asset management capabilities and practices by applying our asset management maturity assessment tool (AMMAT). The Electricity Engineers' Association (EEA) has published a guide for electricity distributors on the application of the AMMAT, available at: https://www.eea.co.nz/tools/products/details.aspx?SECT=publications&ITEM=2564.

7 Wellington Electricity "2017 Asset Management Plan", chapter 6, available at https://welectricity.co.nz/disclosures/2017-asset-management-plan.

8 Powerco "Customised price-quality path: Main Proposal" (12 June 2017), chapter 9, available at http://www.comcom.govt.nz/dmsdocument/15554.

9 Transpower, Presentation to the Commerce Commission on Asset Management (6 March 2017), available at: https://www.transpower.co.nz/industry/regulatory-control-periods/rcp2/updates.

10 In the last few weeks Commission staff have visited Electricity Invercargill, Mainpower, Network Waitaki, Northpower, OtagoNet Joint Venture, The Power Company, Top Energy and Westpower.

11 Commerce Commission "Input methodologies review decisions: Topic paper 3 – The future impact of emerging technologies in the energy sector" (20 December 2016), available at http://www.comcom.govt.nz/dmsdocument/15108. For example, we are currently working with the Electricity Authority to prepare briefing material for the Authority's Innovation and Participation Advisory Group (IPAG). IPAG will be looking at questions of open access to distribution networks and greater participation in the electricity market. The Commission has observer status on IPAG.

12 http://most0010193.expert.services/tools/products/details.aspx?SECT=publications&ITEM=2809.

13 See: http://www.comcom.govt.nz/performance-summaries-for-electricity-distributors/.

14 See: http://comcom.govt.nz/regulated-industries/electricity/performance-analysis-and-data-for-distributors/.

15 See: http://www.comcom.govt.nz/regulated-industries/electricity/performance-analysis-and-data-for-distributors/information-disclosed-from-march-2013-to-march-2017/.

16 The EEA's 2016 Asset Health Indicator Guide is available at: https://www.eea.co.nz/tools/products/details.aspx?SECT=publications&ITEM=2744.

17 For example, in recent submissions on our information disclosure amendments consultation process, Genesis Energy submitted that our information disclosure requirements are no longer effective, and PwC submitted that a review of our information disclosure requirements is required. See: Genesis Energy "Proposed amendments to information disclosure determinations" (28 July 2017), available at http://www.comcom.govt.nz/dmsdocument/15643; and PwC "Submission to the Commerce Commission on proposed amendments to the information disclosure determination for electricity distribution services: Made on behalf of 18 Electricity Distribution Businesses" (July 2017), available at http://www.comcom.govt.nz/dmsdocument/15648.

18 See: Commerce Commission "Invitation to have your say on Powerco's proposal to change prices and quality standards, Issues to explore and consider" (18 August 2017), available at http://www.comcom.govt.nz/dmsdocument/15687.

19 Commerce Commission "Input methodologies review decisions: Topic paper 2 – CPP requirements" (20 December 2016), paragraph 56, available at http://www.comcom.govt.nz/dmsdocument/15107.

20 Commerce Commission "Input methodologies review decisions: Topic paper 2 – CPP requirements" (20 December 2016), paragraphs 30-33.

21 Commerce Commission "Summary of the Commission's enforcement decisions in response to electricity distributors' non-compliance with the price path for the 2011 and 2012 assessment periods" (1 October 2014), available at http://www.comcom.govt.nz/dmsdocument/12533; and "Settlement agreement between the Commerce Commission and Vector Limited" (7 July 2017), available at http://www.comcom.govt.nz/dmsdocument/15590.

22 The exception was in the case of Orion New Zealand, where we issued a 'no further action' letter. We considered Orion could not have been reasonably expected to meet its quality standards following the Canterbury earthquakes. See: Commerce Commission "Summary of the Commission's enforcement decisions in response to non-compliance with the default price-quality path quality standards for electricity distributors for the 2012 assessment period" (26 June 2014), available at http://www.comcom.govt.nz/dmsdocument/11998; and Commerce Commission "Wellington Electricity Lines Limited – warning for non-compliance with the DPP quality standards for the 2013 and 2014 assessment periods" (31 August 2016), available at http://www.comcom.govt.nz/dmsdocument/14662.

23 Unison Networks also reported a price path breach for 2017. However, Unison has since informed us that this was an error, and that it plans to re-disclose its re-audited 2017 compliance statement shortly.

24 http://www.comcom.govt.nz/the-commission/commission-policies/enforcement-criteria/.

25 In our 2014 DPP decision for electricity distributors, we identified a number of areas where the quality standards and quality incentives regime may be further developed in future. See: Commerce Commission "Default price-quality paths for electricity distributors from 1 April 2015 to 31 March 2020: Main policy paper" (28 November 2014), paragraphs 6.56–6.65, available at http://www.comcom.govt.nz/dmsdocument/12767.

26 Commerce Commission "Input methodologies review decisions: Topic paper 3 – The future impact of emerging technologies in the energy sector" (20 December 2016), Chapter 3, available at http://www.comcom.govt.nz/dmsdocument/15108.

27 Commerce Commission "Input methodologies review decisions: Topic paper 1 – Form of control and RAB indexation for EDBs, GPBs and Transpower" (20 December 2016), Chapter 2, available at http://www.comcom.govt.nz/dmsdocument/15106.

28 Commerce Commission "Further amendments to input methodologies for electricity distributors subject to price-quality regulation: Incremental Rolling Incentive Scheme (IRIS)" (25 November 2015), available at http://www.comcom.govt.nz/dmsdocument/13870.

29 During the 2015 DPP reset process, the ENA working group on quality discussed some of the other aspects of quality important to consumers. See: ENA "Pathway to quality, Quality of Supply and Incentives Working Group Report" (February 2014), available at http://www.comcom.govt.nz/dmsdocument/11671.

30 For example, see: Electricity Engineers' Association "Guide for the Assessment of Work Methods to Undertake High Voltage Overhead Line Work" (May 2017), available at

https://www.eea.co.nz/Site/news-events/news/assessment-of-work-methods-to-undertake-hv-oh-line-work.aspx; Security and Reliability Council "Reliability implications of reduced use of high voltage live line work techniques" (28 July 2017), available at https://www.ea.govt.nz/dmsdocument/22381; and Commerce Commission "Input methodologies review decisions: Report on the IM review" (20 December 2016), Attachment C, available at http://www.comcom.govt.nz/dmsdocument/15116.

31 As noted above, our proportionate scrutiny principle is that we should generally aim to accommodate suppliers' circumstances at a level of cost and scrutiny commensurate with the materiality of the changes to prices or quality experienced by consumers, within the constraints of the DPP/CPP regime: Commerce Commission "Input methodologies review decisions: Topic paper 2 – CPP requirements" (20 December 2016), paragraph 56.

32 See: Commerce Commission "Default price-quality paths for gas pipeline businesses from 1 October 2017, Final reasons paper" (1 October 2017), Chapter 4, available at http://www.comcom.govt.nz/dmsdocument/15481. We would, however, need to take into account that there is no IRIS for gas pipeline businesses, whereas there is an IRIS for electricity distributors. In our 2014 IRIS decision, we noted that when an electricity distributor moves from one standard DPP to another, the initial level of opex would come from the disclosed data in year 4 of the preceding period (http://www.comcom.govt.nz/dmsdocument/12725, footnote 55).

33 This would also have the benefit of smoothing the consultation burden for our stakeholders by separating the timing of the electricity distribution reset process from the reset process for Transpower's individual price-quality path. However, we note that, as part of the gas DPP reset process, Vector raised with us the difficulty of capex and opex forecasting in the Auckland growth environment. A shorter regulatory period might not resolve those types of issues. While our preference is to allow incentives to operate within the DPP regulatory period by taking a 'set and forget' approach to price-quality paths, we are open to hearing views about whether further limited 're-opener' events might appropriately be included in the IMs.

34 Following the 2015 electricity distribution DPP reset, we sought feedback on our process, see: http://www.comcom.govt.nz/dmsdocument/12994. Earlier this year, we also sought feedback on the gas DPP reset process, see: http://www.comcom.govt.nz/dmsdocument/15630. The feedback we received about those reset processes is available on our website at http://www.comcom.govt.nz/consultation-on-the-2015-2020-default-price-quality-path/ and http://comcom.govt.nz/2017-2022-gas-dpp/.

35 See: ENA "Pathway to quality, Quality of Supply and Incentives Working Group Report" (February 2014), available at http://www.comcom.govt.nz/dmsdocument/11671; and ENA "Options and incentives for electricity distribution businesses to improve supply and demand-side efficiency, Energy Efficiency Incentives Working Group" (April 2014) available at http://www.comcom.govt.nz/dmsdocument/11809.