

27 February 2015

Electricity distributors,
consumers and
representatives, and
any other interested
parties

Dear colleague

Feedback on process for resetting default price-quality paths for electricity distributors

1. We are interested in receiving your feedback on the process that we undertook to reset default price-quality paths for electricity distributors. Your feedback will help us understand what worked well from a process perspective, what could be improved, and how any improvements could be made.
2. To illustrate the importance we place on the feedback we receive, I would like to draw your attention to some examples of the ways in which we incorporated feedback for this reset. Examples include:
 - 2.1 Early release and changes to the format of the financial model;
 - 2.2 Further opportunities for less formal engagement with Commission staff, including attendance as observers at working groups established by the Electricity Networks Association (ENA); and
 - 2.3 Improvements to the process for engaging with ENA representatives on the format and content of information gathering requests.
3. In addition, I would like to take this opportunity to thank all stakeholders that provided input on technical matters through multiple rounds of consultation. We remain grateful to all of those that engaged on the technical issues, and we were assisted by the constructive tone and quality of the submissions and cross-submissions.
4. With the help of this input from stakeholders, we were able to introduce a number of improvements to the technical approaches used in resetting default price-quality paths. One of the more notable changes introduced at this reset was a more sophisticated approach to regulate quality. We also introduced several new initiatives including a mechanism to compensate electricity distributors for revenue foregone as a result of demand side management activities.

5. Following extensive consultation, these are now finalised. As a result, we are no longer seeking 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.

Process for providing feedback

6. We would welcome your feedback on any aspect of our process, and we request that responses are provided by 10 April 2015. Please address your responses to:

John McLaren (Manager, Regulation Branch)

c/o regulation.branch@comcom.govt.nz

7. The Attachment to this letter draws your attention to certain aspects of our process to help you provide your views. A more comprehensive timeline of our process can be found in the main policy paper that accompanied our final decision.¹

Yours sincerely



Sue Begg
Deputy Chair
Commerce Commission

Enclosed: Attachment A – Key features of the process

¹ Commerce Commission “Default price-quality paths for electricity distributors from 1 April 2015 to 31 March 2020: Main Policy Paper” (28 November 2014), which is available on our website:
<http://www.comcom.govt.nz/dmsdocument/12767>

Attachment A: Key features of the process

Purpose of attachment

A1 This attachment highlights key features of our process for determining the reset of the default price-quality paths and the related amendments to the input methodologies.

Key features of process

A2 Key features of the process include:

A2.1 less formal engagement through ENA working groups;

A2.2 early release of the financial model;

A2.3 engagement with ENA representatives on information gathering requests;

A2.4 analyst briefings; and

A2.5 sequencing of consultation processes.

A3 Further detail on the process followed for the 2015 DPP reset process is provided in Attachment F of the main policy paper for the 2015 DPP reset final decision.

Less formal engagement through ENA working group

A4 Many of the technical issues that we were interested in receiving views on were considered by working groups established by the Electricity Networks Association. Commission staff participated as observers in those groups. We found this process to be constructive and valuable in considering how the default price-quality paths could be improved to better promote the purpose of Part 4.

A5 We also appreciated the opportunity to comment on the Terms of Reference for each group. From our perspective, this early engagement was helpful in better targeting the focus for each working group, clarifying our role, and achieving a shared understanding about the objectives overall.

A6 We are interested in understanding your views on the process for establishing the working groups, as well as the process for receiving input from Commission staff throughout the duration of each working group, and the areas of focus. For example, it may have been beneficial to focus on the revenue growth forecasting model through the Low Cost Forecasting Working Group, as the assumption for revenue growth was one of the most material.

Early release of the financial model

- A7 Following feedback on previous resets we published a preliminary version of the financial model on our website before publishing our draft decision. We welcome feedback on this early release and the format the model.
- A8 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 shortly after interested parties had a chance to familiarise themselves with the model.
- A9 We are also interested in feedback on:
- A9.1 the extent to which models were made available on our website; and
- A9.2 the use of Excel and STATA packages for undertaking the modelling.
- A10 In addition, we welcome suggestions on the ways in which we can enhance engagement on the detail of the models, particularly the models used to determine the quality of service targets, caps, collars, and standards. This is particularly important to avoid errors in the final determination.

Engagement with ENA representatives on information gathering requests

- A11 To inform our modelling, we primarily relied on data that is already provided through the information disclosure regime, but we also requested a small number of additional pieces of information from distributors during the process.
- A12 Initially, we requested the additional information through an informal request, followed by two requests under s 53ZD of the Commerce Act. The requests were issued to all 16 businesses, with a further request issued to 3 businesses on a specific matter.

Analyst briefings

- A13 We welcome feedback on the format and timing of the analyst briefings. We held these sessions the morning that our draft and final decision were released. They were intended to give financial analysts and industry participants an early overview of our decisions and an opportunity to ask any initial questions.

Sequencing of consultation processes

- A14 We undertook consultation on a number of targeted amendments to input methodologies alongside the process for resetting default price-quality paths. In particular, we consulted on a change to the percentile used in determining the Weighted Average Cost of Capital, changes to the Incremental Rolling Incentive Scheme, and a small number of additional matters.
- A15 We also consulted on all aspects of the default price-quality path together, to allow interested parties the opportunity to consider all matters at the same time. We are interested in receiving feedback on this approach, including suggestions on ways in which the consultation process could be staggered (for example, by consulting separately on quality of service, starting prices, or rates of change).
- A16 Consistent with previous processes, one way in which we were able to stagger the processes at this reset was by consulting separately on the drafting of the determination shortly before we issued our final determination. We are interested in your suggestions on any ways in which this consultation step could be improved.
- A17 We also welcome feedback on our attempts to help interested parties respond to the issues by publishing papers that were specific to particular areas, eg, low cost forecasting approaches, quality of service, and compliance requirements.

Other areas of interest

- A18 In addition to the key feature of the process described above, we also welcome other feedback on the process, which could cover the following:
- A18.1 our general approach to consultation (including clarity, accessibility, and timeliness of published material);
 - A18.2 scope of changes introduced at this reset in terms of the scale of consultation;
 - A18.3 supporting documentation for models;
 - A18.4 efficiency and effectiveness of consultation; and
 - A18.5 keeping you informed of the process, eg, through process update papers.