

EDB DPP3 Stakeholder Workshop

Quality and Consumer Outcomes for the EDB DPP3 Reset

27 February 2019



Housekeeping

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Toilets

Access via stairwells either side of the lifts – swipe card will be required to gain entry back to the floor

Fire

Emergency exits via stairwells either side of the lifts – please follow instructions from Commission staff. Assembly area outside St Andrew's church on the Terrace

Earthquake

Drop, cover, and hold. Please do not exit the building until the all-clear is given as there may be danger of falling glass



Agenda for today

- Purpose of the workshop (5 mins)
- Recap of our EDB DPP3 consultation process (5 mins)
- Considering Existing Quality Standards (1 hour 15 mins)
- Options for other quality standards that reflect what consumers want (1 hour)
- AOB including general questions (25 mins)
- Reflection on workshop, next steps and close (5 mins)



Purpose of Workshop



Purpose of this workshop

- The purpose of this workshop is to enable the Commission to better understand the submissions we received in response to our Issues Paper that we published in November 2018.
- Our focus for this workshop will be on submitters' views on the quality standards and how they relate to promoting better outcomes for consumers.
- We will use the discussions at this workshop to better inform our ongoing decision making. Any views expressed by staff will be for the purposes of stimulating discussion and are not intended to reflect the views of the Commission.

The Commission's position will be provided in the draft decision

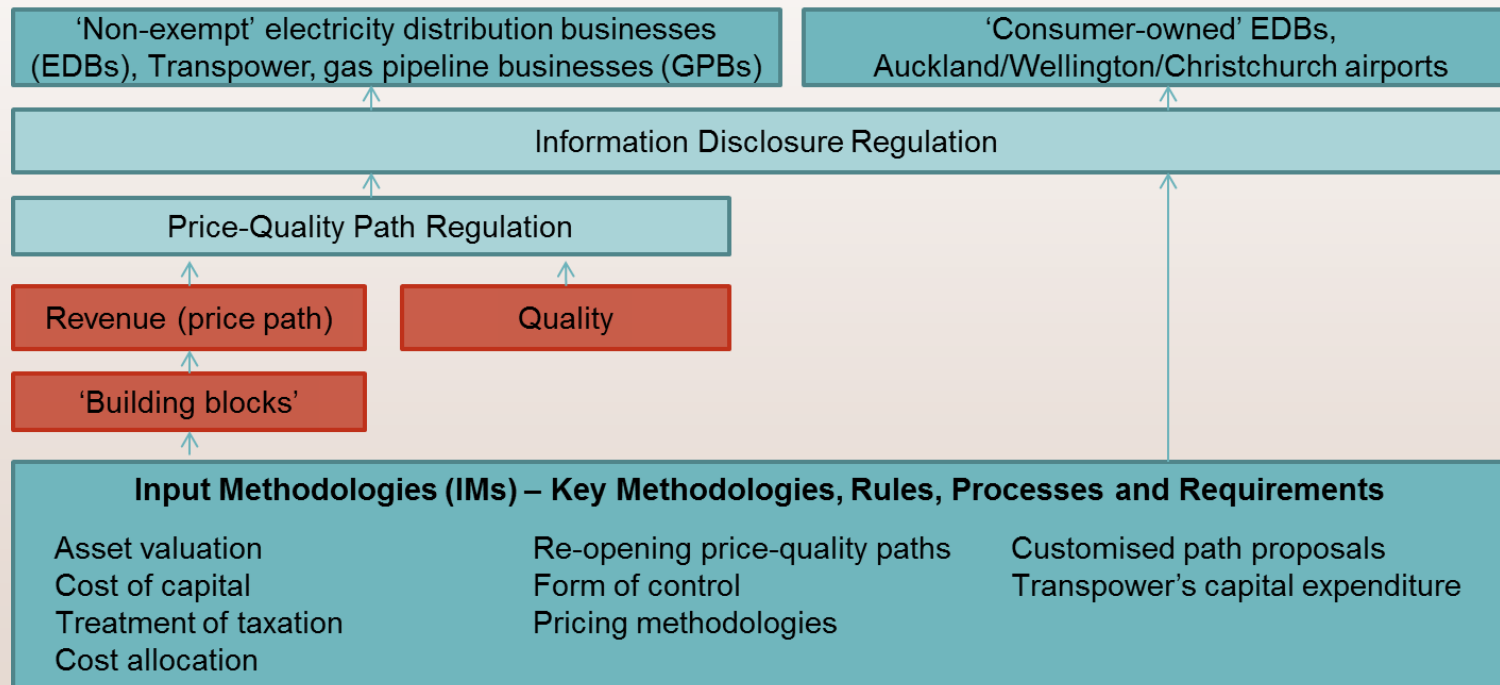
Our consultation process

Milestone	Indicative date
Process Paper released	7 September 2018
Issues Paper released <ul style="list-style-type: none">- Submissions period closed- Cross submissions period closed	15 November 2018 <ul style="list-style-type: none">- 20 December 2018- 31 January 2019
DPP issues specific workshops	February – March 2019
Asset Management Plan updates	31 March 2019
Draft Decision to be published <ul style="list-style-type: none">- Submissions period (8 weeks) closes- Cross submissions period (4 weeks) closes	May 2019 <ul style="list-style-type: none">- June/July 2019- July/August 2019
Information request on quality of service	August 2019
Updated Draft Decision to be published	September 2019
Final Decision to be published	28 November 2019
DPP3 commences	1 April 2020

We are currently evaluating submissions to our Issues Paper

Overview of Part 4 regulation

- Regulation of **price** and **quality** of goods and services in markets where there is **little or no competition** and **little or no likelihood of a substantial increase** in competition



Purpose of Part 4

Section 52A Purpose of Part 4

To promote the **long-term benefit of consumers** [of regulated services] by promoting outcomes that are consistent with outcomes produced in [workably] competitive markets such that suppliers:

- have incentives to **innovate** and **invest**
- have incentives to improve **efficiency** and provide services at a **quality** that reflects consumer demands
- **share efficiency gains** with consumers, including through lower prices
- are limited in their ability to extract **excessive profits**



Considering Existing Quality Standards



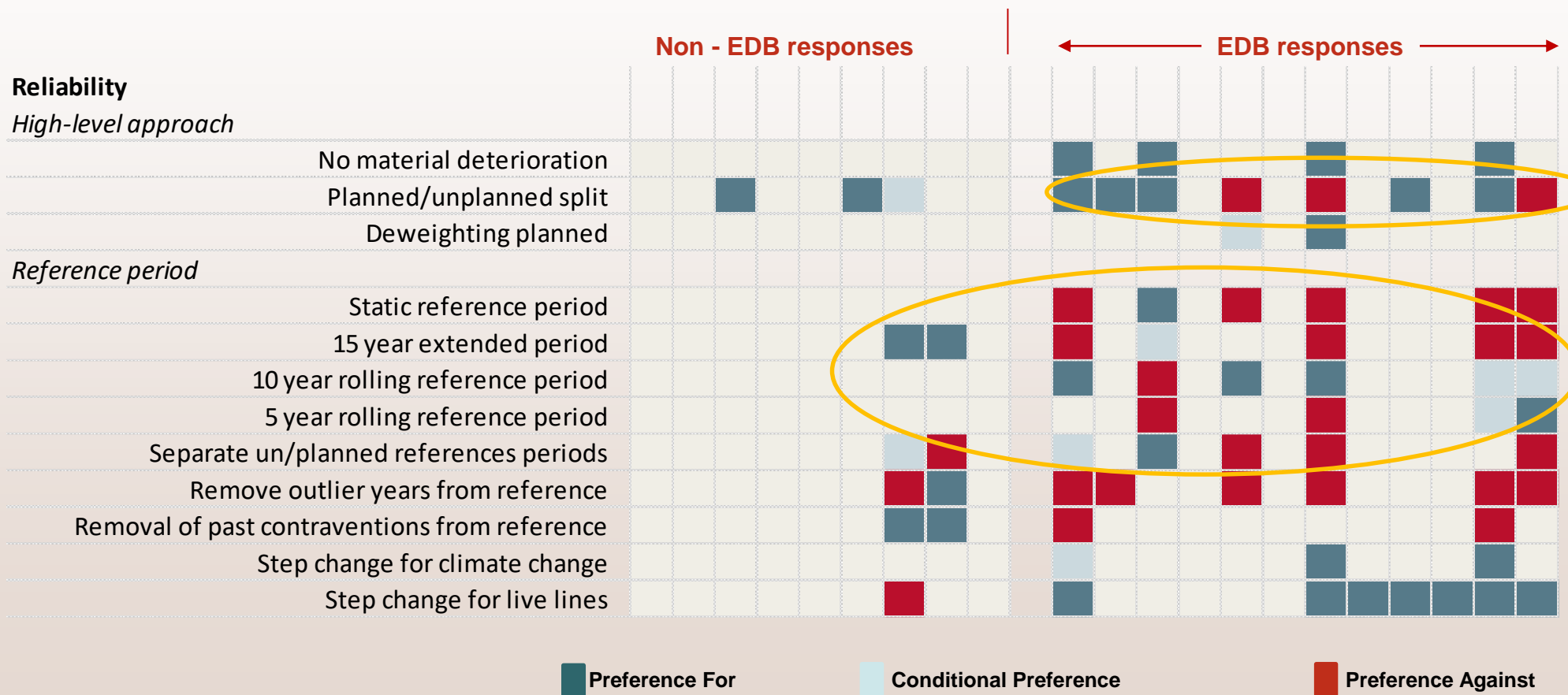
Purpose of Quality Standards

- Quality standards are intended to incentivise EDBs to provide services at a quality that reflects consumer demands.
- Quality standards are important to reduce the risk that EDBs will seek to increase profits by cutting costs and compromising quality.
- The Commerce Act requires the Commerce Commission to specify quality standards in a DPP (s 53M).
- The Commerce Commission can prescribe quality standards in any way it considers appropriate.

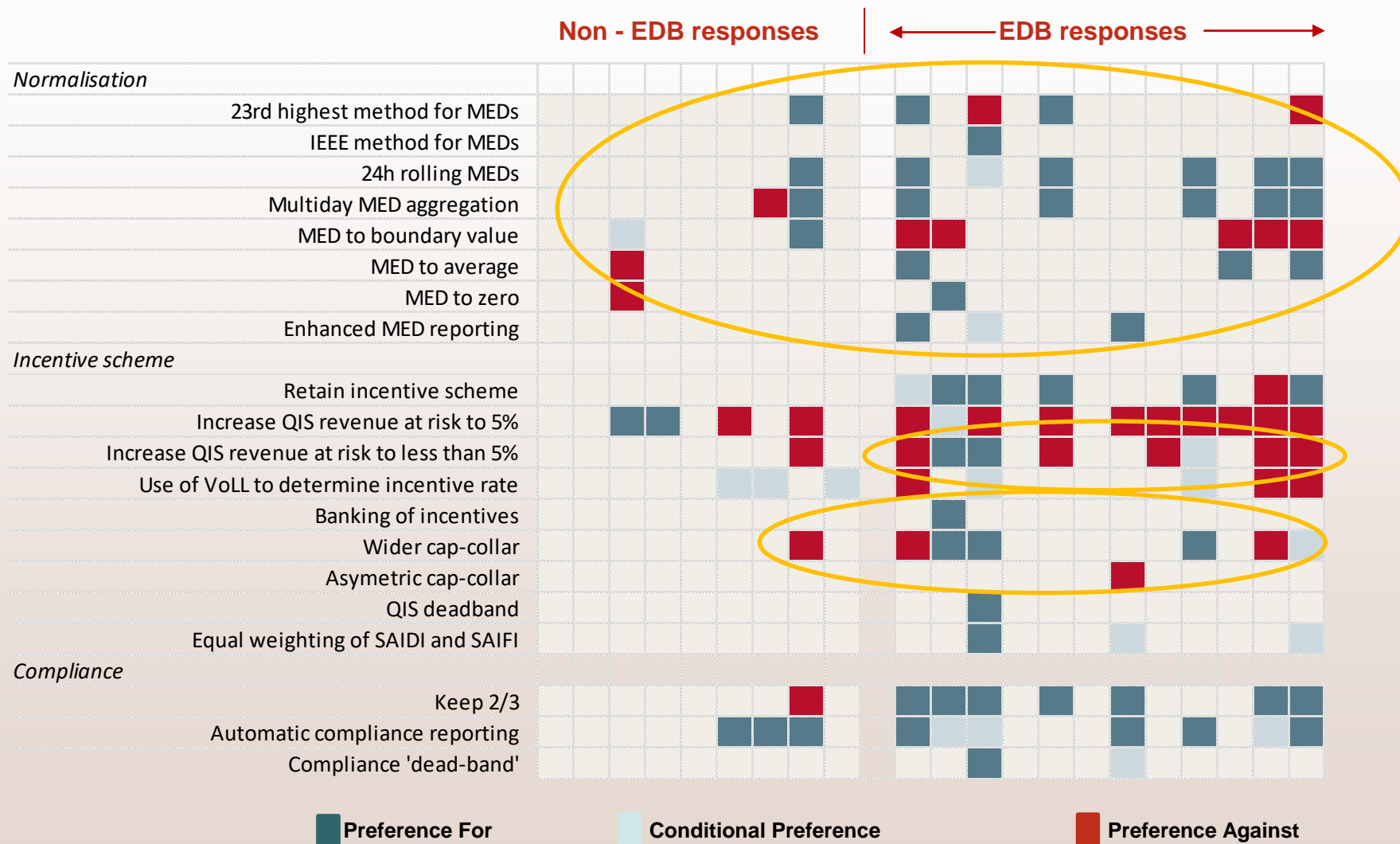
Please refer to our DPP Introductory Session presentation that we presented on 5 November 2018 for further information

Overview of submissions to our Issues Paper

No alignment between what submitters want



Overview of Submissions (cont.)



Reliability

So we would now like to discuss with workshop attendees the reasons for the views expressed in submissions particularly on:

- No Material Deterioration
- Reference Periods
- Major Event Days
- Separation of Planned/Unplanned Interruptions

What is material deterioration?

- Submissions generally accepted ‘no material deterioration’ as a criterion for setting reliability standards
- What is the deterioration subject to?
 - Currently all reliability is considered
- What is the appropriate test for identifying ‘material deterioration’?
 - Currently identified as exceeding a ‘limit’ (one standard deviation above the historical mean) in two-out-of-three years

Reference period

- A wide range of views were expressed for the appropriate reference period for setting the baseline ‘targets’:
 - Static vs. rolling
 - 5 years, 10 years, or 15 years
 - Treatment of outlier years, especially breaches
 - Different reference periods for planned and unplanned

We would like to discuss further with attendees the reasons that underpin these views?

What is a major event and how should they be treated?

- Major events are currently ‘normalised’ to limit the impact of major interruptions.
- Submitters generally support 24-hour rolling major event days and allowing for major events spanning longer than one day.
 - We would like to test with EDBs the application of this potential alteration
 - Do the benefits outweigh the extra complexity?
- EDBs generally support major events to be largely removed, with increased major event reporting.

Separation of planned and unplanned interruptions

- Differing views among EDBs for the merit of separating the treatment of planned and unplanned interruptions.
- Separating out planned interruptions may add some complexity, but may be a tool to:
 - Reduce risk of inefficiently reducing planned works when nearing the reliability standards
 - May better account for internal policy on safety practices, such as live-lines work

We would like to discuss further with attendees the reasons that underpin these views?

Quality Incentive Scheme

- In the Issues Paper, we noted that there had been a wide variation in revenue impacts between EDBs to date.
- We raised a number of issues to consider in relation to the quality incentive scheme for DPP3:
 - whether to retain the quality incentive scheme;
 - how to reflect consumer preferences around price and quality;
 - whether to adjust parameters of the quality incentive scheme (including revenue at risk, SAIDI and SAIFI weights, caps/collars, incentive rate, and treatment of planned interruptions).

Quality Incentive Scheme (cont.)

- In submissions on the Issues Paper:
 - there was general support from submitters for retaining the quality incentive scheme;
 - most EDBs were opposed to increasing the revenue at risk under the quality incentive scheme, although some EDBs and other parties were open to some increase;
 - there were also mixed views on whether to widen the cap and collar.

We would like to discuss with workshop attendees the reasons for the views expressed in submissions

Some questions we have

- How should we assess underlying reliability?
- What are the marginal incentives to change the level of quality, with and without the QIS?
- What is an appropriate ‘target’ level of quality?
- What are the potential shortfalls of the quality incentive scheme?
- Would a QIS be required if quality standards could be set at some ‘optimal’ level?

Options For Other Quality Standards That Reflect What Consumers Want



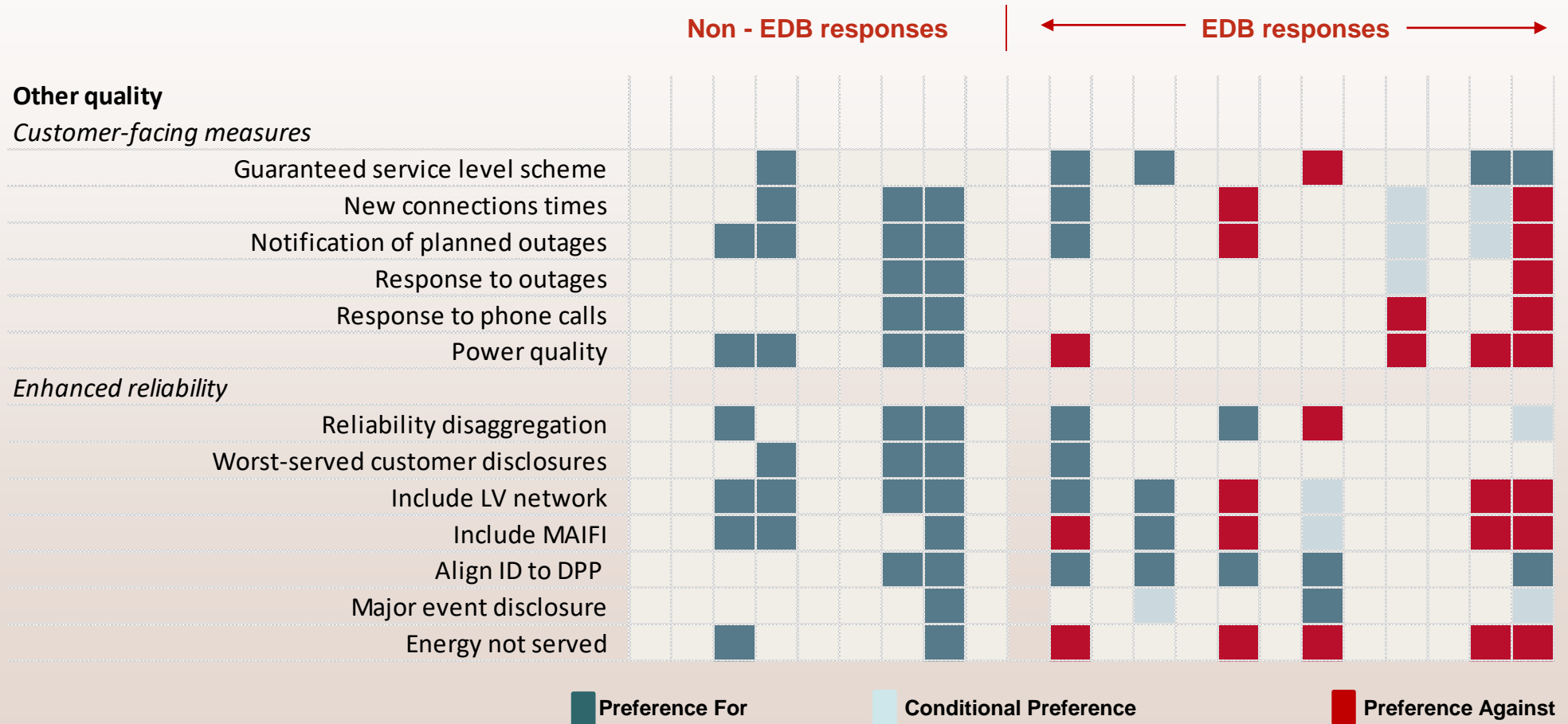
Options for other quality standards



- The ENA has undertaken some useful work in recommending how the quality of service provided by EDBs can be improved
- We released the ENA's interim report with our Issues Paper
- In addition to refining reliability standards and incentive schemes, the ENA also recommended further consideration of additional quality measures around:
 - Customer Service
 - Guaranteed Service Level Scheme
 - Information disclosed by EDBs and how this should be provided

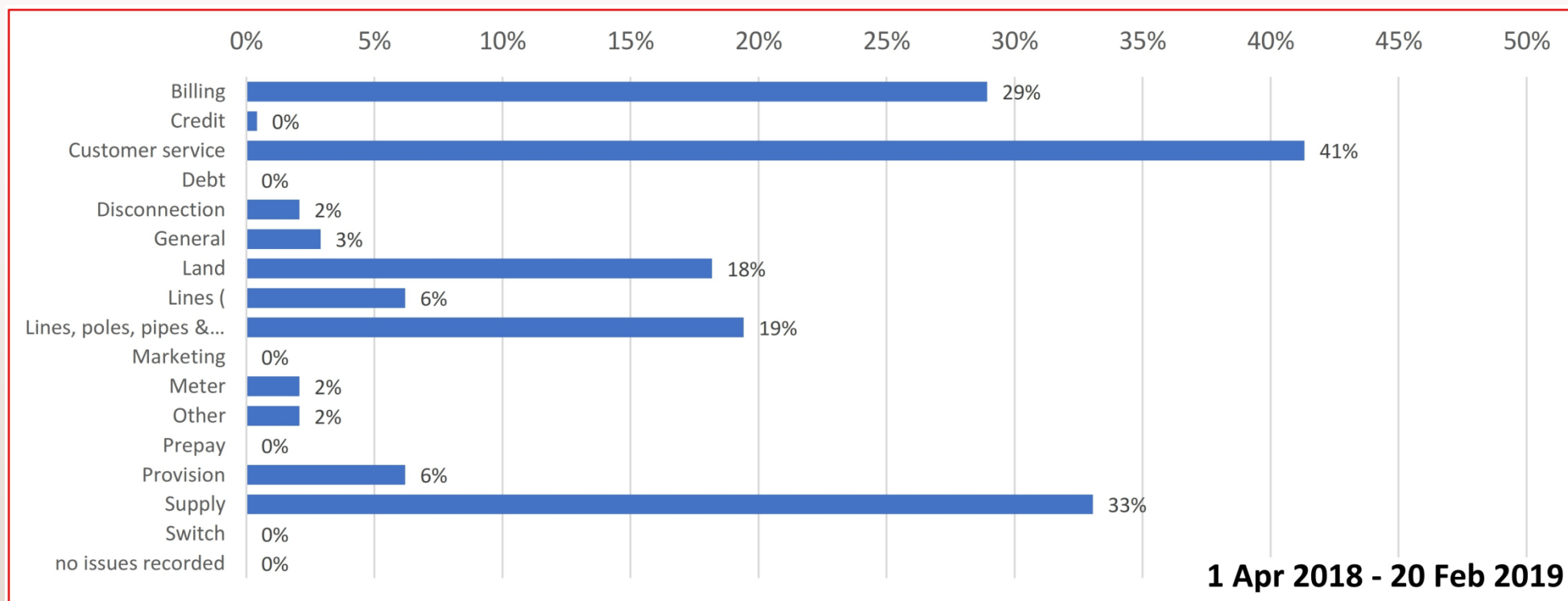
What submissions told us

No alignment between EDBs and what their stakeholders want



What do customers complain about?

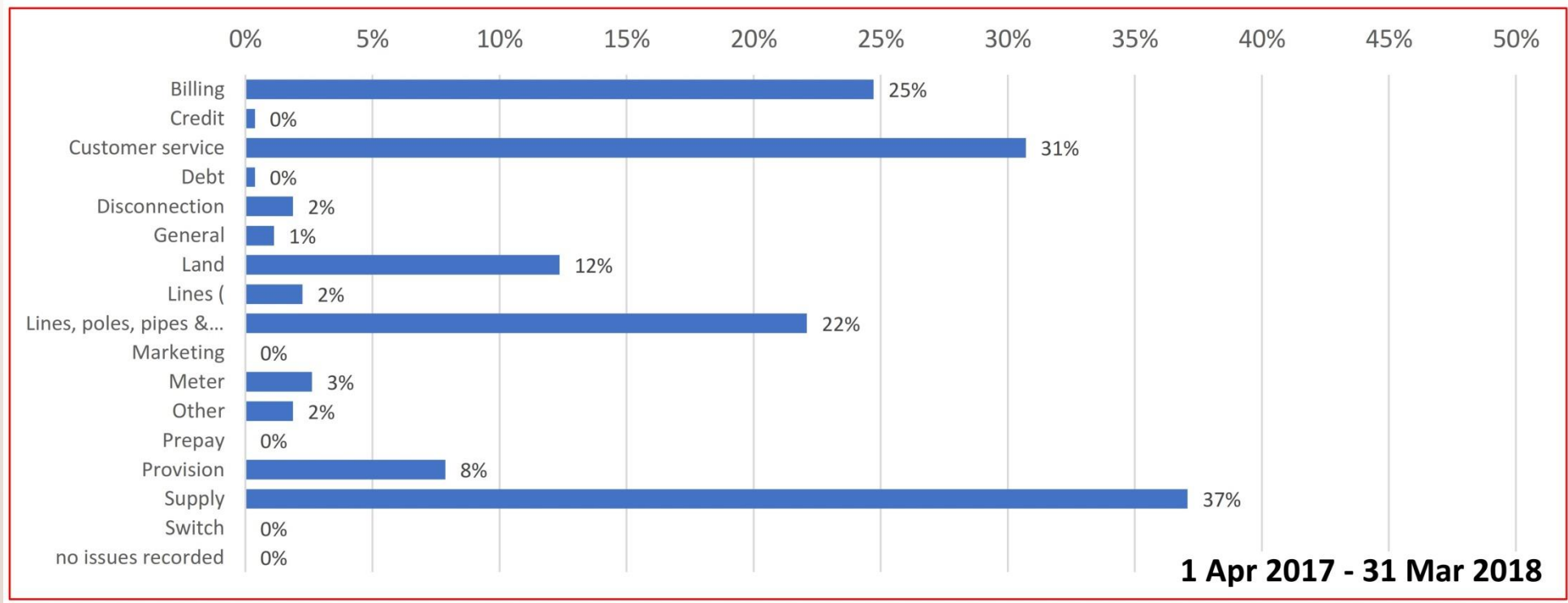
We have spoken to Utilities Disputes Limited about the issues customers complain about



Source: Utilities Disputes Limited

What did customers complain about last year?

Customer service and quality of supply consistently represent over two thirds of customer complaints received by Utilities Disputes Limited



Source: Utilities Disputes Limited

So how can future quality standards address the needs of consumers?



Some Questions we have:

- How do we determine which aspects of quality consumers value most?
- What improvements could be considered to get a fuller picture of network reliability?
- How can we measure other aspects of quality consumers care about?

Considering new quality standards



We will need to be in a position to set quality baselines that are representative of current and future performance

Timeline for setting new quality standards

- How can we best ensure any new standards reflect what customers want?
- What is achievable in this DPP3 period?
- Are there other ways we should hold EDBs to account for current and future performance (such as an Annual Delivery Report)?

Considering new quality standards (cont.)

Data

- Is data available from existing information collected and disclosed by EDBs?
- What additional data will be required to set the new quality standards recommended by the ENA?
- Mechanism for collecting this data (i.e. Information Disclosure, AMPS or other means).
- What is achievable in this DPP3 period?

Any Other Business

Any additional points on current and future quality standards you would like to raise?

