

23 December 2013

John McLaren
Chief Advisor
Regulation Branch
Commerce Commission

By email: regulation.branch@comcom.govt.nz

Dear Mr McLaren

Submission on initial observations on forecasts disclosed by 29 electricity distributors in March 2013

1. Introduction

1. Horizon Energy Distribution Limited (“Horizon Energy”) welcomes the opportunity to provide feedback to the Commerce Commission (“Commission”) on the Initial observations on forecasts disclosed by 29 electricity distributors in March 2013 (“initial observations paper”).
2. We support the submissions provided by the Electricity Networks Association (“ENA”) and PricewaterhouseCoopers.
3. We understand the Commission is required under Part 4 of the Commerce Act 1986 (“the Act”) to publish summary and analysis of the information disclosed by distributors. And that the initial observations paper contains summary and analysis on the Year-Beginning disclosures for the 2014 disclosure year being the Asset Management Plans for the 2013-2023 period.
4. We address some key areas identified within the general approach of this summary and analysis consultation process and subsequently some observations on the top down ‘one size fits all’ view of the industry.

2. Approach

5. We note the short timeframes the Commission is working towards for this initial consultation phase on summary and analysis, and acknowledge the benefit of the Commission’s workshop and encourage further workshops to facilitate on going consultation such that industry views are reflected to provide more meaningful analysis.
6. While we note summary and analysis is for all Electricity Distribution Businesses (“EDB’s”), we understand the Commission is looking to align some of the analytics produced for summary and analysis with those that can be applied for setting starting prices for the Default Price-Quality Paths (“DPP”) of non-exempt EDBs.

7. We are concerned that the summary and analysis process is drawing conclusions on analytics that informed the Commission's setting of starting prices for the 2010-15 DPP of non-exempt EDBs.
8. We appreciate the Commission has acknowledged the summary and analysis consultation is separate to the consultation process that will be undertaken for the setting of starting prices for the 2015-20 DPP but submit any improvements to the analytics undertaken for summary and analysis should flow through to the other work streams and vice versa.
9. We acknowledge the Commission's continued involvement with ENA working groups looking at improvements to analytics and forecasting to be utilised by the Commission when setting starting prices for the 2015-20 DPP of non-exempt EDBs.

3. Observations

10. We remain of the view that a top down 'one size fits all' approach to analysis is not beneficial to 'interested persons', due to the potential for misleading conclusions to be drawn, in the absence of appropriate underlying assumptions and clear statistically significant correlations between the model inputs and outputs.
11. We acknowledge the Commission's need to apply low cost regulation for default/customised price-quality regulation, however no such requirement necessarily follows for summary and analysis.
12. Fundamentally there is benefit in applying EDB specific information for summary and analysis, we submit for the Commission to invest the time and resource to develop analytic tools that will align more reasonably with EDB specific expectations and underlying drivers of performance.
13. EDB's spend considerable time and resource producing Asset Management Plans, detailing a multitude of factors attributing to the investment plans for the business. Attempting to draw conclusions at a high level without acknowledging the inherent risk with point measurement and the benefit of the appropriate underlying assumptions, is problematic and unhelpful.
14. The Commission has proposed preferred funding levels for the electricity sector in the Commerce Act Part 4 Funding Review September 2013 Paper. These preferred funding levels illustrate significant increases in costs expected by the Commission, and therefore conversely the sector, when regulatory changes are being introduced and reviewed, such as for price resets or review of input methodologies.
15. We note the Commission's top down model for operating expenditure continues to ignore increases in costs that EDBs are required to absorb. For example the implementation of Part 4 continues to lead to an increase in costs for providing information to the Commission, understanding, implementing, and complying with new price-quality, input methodologies, and information disclosure regulation. We submit that there needs to be some allowance for EDB's costs to be aligned to the Commission's expectations of increased activity.
16. While we acknowledge the Commission's efforts to consult on possible improvements to summary and analysis, we would suggest much of the feedback received through the consultation the Commission undertook around the Information Disclosure: Approaches for Understanding EDB and GPB Cost Efficiency Technical Paper in October 2011 could be used to inform the Commission on industry views around the forecasting of future expenditure levels.

17. We look forward to working with the Commission in developing meaningful analytics that would provide for well-informed summary and analysis.
18. Thank you for considering this submission. Please find contact details below to discuss any of these matters further.

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