

**Submission to the Commerce Commission**

**on the**

**Further Work for the Reset Default  
Price-quality Path for Electricity Distribution  
Businesses Process Paper**

**Made on Behalf of  
20 Electricity Distribution Businesses**

**19 March 2010**

## **Submission on Further Work for the Reset Default Price-quality Path for Electricity Distribution Businesses Process Paper**

This paper forms our submission on the Commerce Commission's (the Commission's) Further Work for the Reset Default Price-quality Path for Electricity Distribution Businesses Process Paper (the Process Paper), which has been prepared by PricewaterhouseCoopers (PwC) on behalf of the following 20 Electricity Distribution Businesses (EDBs):

- Alpine Energy Limited
- Buller Electricity Limited
- Counties Power Limited
- Eastland Network Limited
- Electricity Ashburton Limited
- Electricity Invercargill Limited
- Horizon Energy Distribution Limited
- MainPower New Zealand Limited
- Marlborough Lines Limited
- Nelson Electricity Limited
- Network Tasman Limited
- Network Waitaki Limited
- Northpower Limited
- OtagoNet Joint Venture
- Scanpower Limited
- The Lines Company Limited
- The Power Company Limited
- Top Energy Limited
- Waipa Networks Limited
- Westpower Limited.

### **Background**

1. On 30 November 2009 the Commission published a section 52P determination on the default price-quality path for EDBs – referred to as the Initial Reset Determination. The default price-quality path (DPP) under the Initial Reset Determination applies from 1 April 2010 until 31 March 2015 and is referred to as the Reset DPP.

2. In its Decisions Paper, the Commission indicated that several matters consulted upon as possible elements of the Reset DPP would not be included as part of the Initial Reset Determination. The Commission did not consider it feasible to address these matters in detail before the statutory deadline of 1 December 2009 and indicated that they would be revisited as part of further work for the Reset DPP.
3. In February 2010 the Commission published the Process Paper. This submission is a response to that paper.

#### **Matters for Consideration**

4. The matters for further consideration in the Reset DPP include the following:
  - consistency with input methodology determinations;
  - starting price adjustments;
  - use of an adjustment term within the allowable notional revenue formula;
  - consideration of dedicated energy efficiency mechanisms;
  - potential use of quality incentives; and
  - development of enforcement guidelines.
5. The EDBs represented by this submission support the further consideration of these matters. We also note however that the Reset DPP Decision Paper indicated that the Commission planned to consider further the provisions for the pass through of avoided transmission costs and charges in the context of the Reset DPP.<sup>1</sup> We support this initiative and we submit that it needs to be added to the matters to be addressed for the Reset DPP process.

#### **Proposed Timetable**

6. It is difficult to comment on the proposed process because the information provided is incomplete. In particular we note that the energy efficiency, quality incentives and enforcement guidelines matters are not progressed beyond the June/July General Issues Paper. We appreciate the need to prioritise the work streams, particularly given other commitments to Input Methodologies (IMs) however it would be helpful to understand the Commission's plans in full. In this respect we submit that:
  - The quality incentive and energy efficiency matters should be progressed with further consultation in 2011; and

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<sup>1</sup> Commerce Commission, Initial Reset of the Default Price-Quality Path for Electricity Distribution Businesses, Decisions Paper, 30 November 2009, paragraph 4.39

- The Enforcement Guidelines should be drafted and finalised as soon as possible in 2010. This is consistent with our previous submissions which highlighted that the Reset DPP comes into effect on 1 April 2010, whereas the process for compliance, and enforcement action in the event of a breach will not be known until after that date. We have previously submitted that it is important for EDBs to understand the consequences of breaching the DPP prior to the DPP coming into effect.<sup>2</sup>
7. The proposed timetable for 2010 also indicates a degree of overlap with the IM consultation process. In particular the General Issues Discussion Paper will be issued at a similar time to the IM Draft Determinations, with submissions due on both sets of papers at the same time. We do not believe this is appropriate given the significance and scope of the IMs and suggest that some of the Reset DPP issues can be deferred and others can be brought forward to make this consultation period more manageable.
8. EDBs and their advisors have access to a limited number of individuals with sufficient knowledge and experience to be able to meaningfully respond to these work streams. For this reason we urge the Commission to reconsider its DPP timetable in the context of the IM timetable, particularly in respect of the overlap on submission preparation for EDBs. The same issue arose in mid 2009 with EDBs required to respond on the IM Discussion Papers and supporting reports, the DPP Discussion Paper and the Information Disclosure Discussion Paper in June, July and August with the submission processes overlapping for each set of papers. Ultimately this does impact on the ability of EDBs to respond to the best of their capability.

### **Starting Price Adjustments**

9. We have particular concerns regarding the proposals for the starting price adjustment consultation process. Any starting price adjustments which may be eventually implemented will be dependent on the IMs. According to the Commission's current timetable, the IMs will be determined in Q4 of 2010, and in any event must be determined prior to 1 January 2011. The starting price consultation proposed in the Process Paper commences with an information request in December 2010. This appears to be prior to any consultation on the approach to be adopted for starting price adjustments. It is possible that the Commission is

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<sup>2</sup> PwC, Submission on the Initial Reset of the Default Price-Quality Path, Draft Decisions Paper, 12 October 2009, page 5.

planning for this consultation to be included in the General Issues Paper, however this paper is due to be published well before the IMs are determined and we believe such timing would not be appropriate.

10. We therefore submit that once the IMs have been determined, and before the information request is made, a discussion paper on the proposed approach to starting price adjustments is prepared and consulted upon.
11. In addition, the proposed timetable does not allow for EDBs to apply the IMs before the information request is made. One of the IM consultation issues is the level of prescription to be included in the IM determinations, and the additional material which may be included in other regulatory instruments. We have recently submitted that the IMs should include a detailed description of the IM approach to be applied, and we recognise that the IMs are likely to be implemented in the first instance in information disclosure requirements.<sup>3</sup> In our view it is appropriate for information disclosure requirements to include additional instructions (and templates and definitions) to assist EDBs implement the IM.
12. The intention of the information request is not clear from the Process Paper. It is also in our view not possible to set out the starting price consultation timetable with any degree of certainty until the IM determinations have been made, given some of the IM options being considered will be quicker to implement than others (for example options for opening RAB and common cost allocations). In addition it will not be possible to determine the period over which the information will be required for the starting price adjustment assessments until the proposed process has been consulted upon. In our view the information request must be targeted, meaningful and must not impose undue compliance costs on EDBs. Specifying such a request by December 2010 is too early.
13. Accordingly we suggest that although the Commission may target implementation of potential starting price adjustments for the beginning of 2012, this may not be possible in practice. Therefore we suggest that the Commission should sequence its starting price adjustment process as follows:
  - i Completion of IM determinations
  - ii Implementation of IMs (via information disclosure requirements)

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<sup>3</sup> For example PwC, Post Workshop Submission Input Methodologies (Electricity Distribution) Emerging Views Paper - Regulatory Asset Base and Cost Allocation Workshop, 15 March 2010, Appendix A, Q(5), page 19

- iii Consultation on possible approaches to starting price adjustments (could be undertaken concurrently with the implementation step above)
- iv Information request (once initial disclosures consistent with new IMs are made)
- v Starting price draft decisions and consultation
- vi Technical drafting, final decision and determination.

14. The target dates for each of these steps can only be determined once the IMs have been finalised. For example if a new opening RAB is required based on updated ODV valuations, sufficient time must be provided for EDBs to implement this methodology. It is not appropriate for the Commission to set out a consultation timetable prior to either the draft determinations or the consultation process on those draft determinations.

**Input Methodology Consistency and Revenue Adjustment Term**

15. We note that the IM consistency and revenue adjustment term issues are to be addressed and final decisions made in Q4 of 2010. We support the intention to fully address the revenue adjustment term prior to EDBs setting their prices for the next regulatory period commencing 1 April 2011. This means that this decision is required by the end of November 2010.

16. The IM consistency decisions are dependent on the IM determination process. Although it will be preferable to have this completed by 30 November 2010 to allow it to be gazetted for the next regulatory period, this is not a necessity and in our view could be delayed if necessary, unlike the revenue adjustment issue.

**General**

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