

31 January 2019

Dane Gunnell

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By email to regulationbranch@comcom.govt.nz

Re: 2020 DPP Issues Paper submissions, cross submissions.

Dear Dane

Thank you for the opportunity to cross submit on matters raised in other party submissions on the Commission's 2020 DPP Reset Issues paper, 15 November 2018.

ENA members generally remain supportive of the Commission approach to the matters that need attention for the 2020 DPP reset and, over the last 12 months, have sought to provide the Commission with both members' views on specific issues as well as external expert advice that we consider would improve the effectiveness of this reset for both consumers and EDBs.

[Overview of stakeholder submissions](#)

Our review of stakeholder submissions resulted in a limited range of matters requiring comment from us. This is not because we agree or disagree with submitters views but, rather because many of the views put forward were not evidenced or reasoned, therefore we simply find it difficult to respond. Also, a number of submissions raise matters that are not related to this DPP3 reset and therefore we have not addressed them in this cross submission.

[Consumer input to DPP performance standards](#)

A key theme emerging from a number of submissions is that there should be a focus during DPP3 on improving the quality and reliability incentive regimes applying to EDBs. The ENA quality of service workgroup has proposed that additional information is made available to assist consumers

better understand the service provided, and to compare service with other consumers and other locations. Also, individual distributors' consultation with consumers suggests that most are in fact comfortable with current levels of service. It is also important to note that distributors are increasingly seeking consumers' views on a range of topics, including, price/quality.

The ENA work group has proposed changes to improve the current reliability incentives. The proposal is to modify the quality incentive scheme by removing planned SAIDI and SAIFI and replacing them with the two customer service measures. This will balance the financial incentive across reliability and customer service outcomes. The incentives for planned work are retained by focusing on planned outage notifications (which are highly valued by customers) and removing the financial reward/penalty for lower/higher planned SAIDI and SAIFI than the target. This will allow EDBs to better manage their planned work within the regulatory period without unnecessary financial consequences for year on year variation.

Setting quality standards

As a general comment, the [2018] ENA quality of service work group has considered many of the current quality issues and has offered solutions to most of those matters raised by submitters. The work group supported more information disclosure about quality performance (disaggregated HV, LV, worst served customers) to better inform consumers. The workgroup also proposed solutions to deal with the changes in operating practices and other measurement issues which have contributed to breaches of quality standards on the basis that these are not indicators of deteriorating quality.

The workgroup's report was published for consultation alongside the Commission Issues paper.

Partial productivity factor

Both MEUG and Fonterra have expressed strong views that the partial productivity factor for opex should be included in the DPP3 reset at a value of +1.5%. Other submitters have either expressed a passing view on this matter, or no view at all.

In DPP3 the Commission start point for the PPF is 0%, as it was in 2014 for the DPP2 consultation. DPP2 was finally determined with a PPF factor of -0.25%.

The ENA views were expressed in our submission of 21 December 2018. That submission described several contributors that support a negative PPF for DPP3 and it urged the Commission to seek specialist advice and to gather an evidence base to determine what the PPF factor should be. In support of this proposal to the Commission, and to help submitters understand what the PPF factor means, we asked NERA to prepare a short advisory note for inclusion with this cross submission. The NERA paper is attached.

We would also encourage the Commission's approach to consider making the criteria for opex 'step changes' less rigid to account for a gradual transformation in the nature of outputs provided by EDBs, that we are in the midst of, the cumulative effect of which could be quite large over the term of DPP3.

Incentives

A number of submitters made extensive comments about EDB performance and especially that the DPP incentives do not promote efficient distributor outcomes. They argue that the long-term interests of consumers are not appropriately considered under the current IRIS regulatory structures and promote tighter incentives on EDBs, capex in particular. Contact takes a somewhat different approach and promotes the adoption of a totex expenditure structure such as is now used in some overseas regulatory environments. Contact also offered the suggestion that the Commission needs to consider demand side management incentives for EDBs sooner rather than leaving this issue to DPP4 in 2025, or later.

We would urge the Commission, and submitters, to consider carefully the arguments that Powerco and Unison put forward in their submissions that making adjustments to capital expenditure retention rates are likely to have negative long-term impacts for consumers.

We also support the Unison view that the Commission should consider the advice that Brattle provided via the ENA on the topic of innovation incentives. DPP3 simply must include incentives for EDBs to invest in innovation so that consumers realise the benefits from new technologies and better performing networks.

Closing comments

Again, ENA members are appreciative of the opportunity to provide the Commission with feedback on stakeholder submissions regarding the 2020 DPP3 reset. The ENA quality of service workgroup proposed a package of changes to the DPP, aimed at improving consumer outcomes from the DPP regime and to improve the regime in readiness for the 2020/2025 EDB operating environment.

Many of the stakeholders who submitted on the Issues paper had something to say on quality of service performance and on EDB quality incentives. These situations leave us wondering whether it would be helpful to the Commission if quality of service was the subject of a stakeholder workshop, where a shared industry understanding of the ENA workgroup proposals on quality of service could be developed. While a clear focus on the quality and reliability aspects of the regime has emerged from submissions, we do reiterate our view that it is important that financial forecasting approaches (for opex in particular) are robust. Work on quality/reliability should not diminish from identifying improved methods of forecasting in light of forecast performance during the regulatory period to date.

Yours sincerely



David de Boer

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