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Dear Mr Gunnell

## **Default price-quality paths for electricity distribution businesses from 1 April 2020 – Draft Decision**

### **1. Introduction**

Wellington Electricity Lines Limited (WELL) welcomes the opportunity to make a submission in response to the Commerce Commission’s (Commission) draft decision on the “Default price-quality paths for electricity distribution businesses from 1 April 2020” published on 29 May 2019. This submission refers to this paper as the “Draft Decision”. The submission will also reference the Issues Paper “Default price-quality paths for electricity distribution businesses from 1 April 2020” published on 15 November 2018. This submission refers to this paper as the “Issues Paper”.

WELL’s submission covers the following key issues:

Section 2 – Executive summary

Section 3 – Transition from the Customised Price Path (CPP)

Section 4 – Changing EDB services

Section 5 – Forecasting operating expenditure

Section 6 – Forecasting capital expenditure

Section 7 - Efficiency incentives

Section 8 - Revenue cap with wash-up

Section 9 - Reliability standards and incentives

Section 10 - Closing

The Electricity Network Association (ENA) has also provided a submission in response to the Draft Decision. WELL supports the views of the ENA submission specifically the operating cost forecast and quality of supply sections. WELL welcomes the opportunity to provide a submission in response to the Commission’s Draft Decision.

## 2. Executive Summary

WELL supports the Commission's key goal of the Default Price/Quality Path (DPP) framework of providing a stable (consistent and predictable) regulatory platform by retaining the low cost approach by making incremental improvements to the DPP2 model.

Care is needed to ensure that the proposed incremental improvements are balanced and are not further reducing an EDB's ability to invest in the network for our customers. Overall, EDBs' returns are currently below the Weighted Average Cost of Capital (WACC) for the DPP2 regulatory period<sup>1</sup>.

There are a number of new costs driven by a changing workably competitive market that will not be captured by the proposed DPP3 mechanisms. Currently, these cost increases sit with EDBs. Mechanisms designed to reflect changes in costs are ineffective as they have no flexibility to capture market changes (the step change and re-opener mechanisms) or they have been set at a level where they will have only a neutral effect (the partial productivity factor).

WELL is concerned that the proposed changes to the DPP framework will further reduce an EDB's ability to make WACC return. The size of the shortfall in expected returns is unlikely to be large enough to warrant the effort and expense of changing price paths to a CPP. This is quite a subtle risk built into the DPP process as it sets a "no-man's land" between a DPP and CPP where allowance and investments both reduce to a point where there then becomes a sufficient step change to lodge a CPP. Therefore the DPP3 needs to be more flexible to address single issue events, outside of business as usual, but is also well below a CPP submission threshold.

When implementing a pricing reset, there should be a review of the regulations' past period performance to inform the inputs into the next regulatory period. It is especially welcomed to see the asymmetry of the price cap being replaced with a revenue cap. However, the Commission need to remain mindful that a revenue cap captures business as usual demand very well but needs additional mechanisms to provide flexibility to adjust to market and customer driven change (i.e. ICP and line length growth will no longer be accurate predictors of network growth driven from new 'behind the meter' Distributed Energy Resources (DER) technology which can store, generate and discharge energy).

The DPP3 methodology also needs to consider the recent Interim Climate Change committee report recommendations for "accelerated electrification" and enable distribution networks to prepare for electrified process heat and electrified transport fleets. Both of these elements are not contemplated in the structure of DPP3, hence the flexibility to accommodate these changes is necessary to avoid delaying the adoption of the government's accelerated electrification program.

WELL is pleased that the Commission is exploring and examining the impact that new technology may have on electricity distribution services. WELL encourages greater coordination across the whole sector rather than single entities operating in silos. WELL does not support regulators and the industry taking a "wait & see" approach – EDBs need responsive regulatory support to proactively

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<sup>1</sup> The average ROI (Comparable to the Vanilla WACC (excluding revenue earned from financial incentives and wash-ups)) for EDBs that are price/quality regulated EDB's for the first three years of the DPP2 regulatory period is approximately 6.6%. This compares to the Vanilla WACC for the DPP2 period of 7.19%.

trial, test and implement new technology solutions to manage consumer and government led demand.

It is important that a responsive regulatory system is evolved to consider changes in government transport initiatives. If EDBs cannot fund the development and implementation of tools to manage customer DER where Electric Vehicle (EV) charging is not shifted from peak demand periods, then electricity supply is likely to be disrupted by an unmanaged increase in load. Should EVs be seen as the cause of disruption to supply reliability then this will negatively impact New Zealand plans to become carbon neutral by 2050. This would be a political failure that can be avoided by adding flexibility in to the DPP3 with forward looking regulatory incentives.

WELL supports the intent of the new mechanisms and agrees with the Commission plans to develop a better understanding of the potential impact new technology might have on EDB services and changing consumer requirements within the DPP3 period. However, WELL is concerned that the Commission's intent may be surpassed by government policy and that the DPP3 will not have sufficient mechanisms to react accordingly to changes required by revised government policies. Potential changes are imminent with the release of the Interim Climate Change Committee reports. Note, these changes will not be included in an EDB's 2019 AMPs.

WELL is also concerned that over the next 6 years, new technology and new services demanded by customers will outpace the current uncertainty mechanisms, allowances and quality incentives. To help ensure EDB services remain relevant, WELL believes:

- The Innovation fund needs increasing to encourage EDBs to invest in new technology at a level that will keep pace with changing consumer demand;
- The uncertainty mechanisms should be broadened to incentivise "least regrets" investments which avoid adverse quality impacts to consumers from significant network growth from government de-carbonisation policies (not just from a single new source);
- A new regulatory framework for medium size, non-business-as-usual investments not captured by the DPP framework and are cost prohibitive under the Customised Price Path (CPP) framework. The alternative framework would be used to capture network investment needed to support the introduction of new services, like investment in monitoring of the performance of the Low Voltage (LV) network. It could also be used to purchase demand response services from customers (DER) through their retailer or aggregator as a more economic solution to network capacity investment.

WELL disagrees with the proposed new unplanned reliability breach assessment and the change in planned quality targets. To enable a learning business model, it is not appropriate to keep changing the basis for quality assessments and incentive schemes as this does not maintain certainty for investment or support for predictable operating environments.

The current DPP2 regime provides the stability needed for EDBs to learn from their quality results and adjust and alter their operations accordingly. An example of this is Strata's 2011-2013 quality investigation which reviewed and endorsed the changes made by WELL following a quality breach, confirming those changes were rectifying network reliability. Similarly, WELL's pending investigation will largely review further changes made to operating practices in response, to return quality back to the customer-expected level.

Specifically, the proposed unplanned reliability breach assessment will increase the number of breaches simply because of a tighter target – not because of a deterioration of supply or because customers have agreed to pay more for higher reliability. On the Wellington network customers' consistent response is to maintain the current reliability levels for the price they are being charged. Current reliability levels include an acceptance that some interruptions caused by natural events are inevitable for current price levels as part of the current price-quality trade-off. New technology will provide further price-quality options for customers on future reliability levels on a more individual basis.

Compliance costs will grow as a result of the number of breaches and subsequent investigations are increased under the new unplanned mechanism, but will provide no customer benefit. The price-quality economics of this needs to be considered from the customer perspective. The additional cost of running this scheme will come from existing allowances, resulting in less opex being expended on maintaining the network, risking a self-fulfilling prophecy of spending time and money on compliance rather than on improving asset reliability. WELL supports reverting back to the two out of three year quality assessment criteria and incentive scheme.

Because of the changes in the workably competitive environment, WELL has recently adjusted a number of its work practices which brings into question the relevance of targets based on a 10 year average, where current levels of quality performance are not accurately reflected. IEEE highlighted this problem and has maintained that a five year historic average more accurately forecasts future reliability performance.

The proposed changes in planned SAIDI and SAIFI targets will result in some EDBs consistently incurring quality costs from the incentive scheme. Either the planned historic data set should be adjusted to remove the impact of the change in live line work practices, or the planned data set period reduced to five years to acknowledge the introduction of new work practices.

The combined impact of the quality changes and the downwards pressure on allowances on EDBs, illustrate WELL's wider concerns about the price/quality trade-off. The proposed changes to the quality targets are pressuring EDBs to improve quality despite customers being comfortable with maintaining current levels of reliability while also increasing the likelihood of EDBs breaching. This is at a time when allowances are under pressure from greater business as usual costs. Increasing quality without increasing price is not sustainable if customers do not want either to increase.

### **3. Transition from CPP**

WELL supports the Commission's draft decision on how it will transition WELL from its current CPP to a DPP on 1 April 2021.

An additional adjustment will be needed to ensure CPP operating costs are included in the DPP operating cost allowance (which are excluded from the current draft DPP operating allowance). WELL's current CPP determination includes on-going operating costs for the continued operation of its earthquake readiness programme. The CPP operating costs will not be fully captured in the base year used to forecast DPP – there are operating costs which fall in the last two years of the CPP programme and will fall after the selected base year.

WELL looks forward to assisting the Commission should they request any new information next year when finalising the MAR.

### 3.1. CPP application window

WELL supports the options of moving to a single date for CPP applications.

## 4. Changing EDB services

WELL is pleased that the Commission is exploring the impact that new technology may have on the management of electricity distribution services. We agree with the Commission's view that new technology will impact the distribution industry and regulatory mechanisms need to be responsive to meet changing customer demands or new government initiatives.

The Government's release of the Interim Climate Change Commission's report, "Accelerating Electrification", provides strong support for increasing electrification of process heat and transport fleets by 2035. WELL encourages the Commission to reassess their regulatory incentives to support government zero-carbon targets by including flexibility into its DPP3 mechanisms.

The DPP framework has been adequate at setting a price-quality path for 'business as usual' electricity distribution. However, the proposed mechanisms in the Draft Decision are not flexible enough to facilitate the integration of the network with new technology or to meet new costs arising from changes from customer future energy resources choices.

WELL encourages the Commission to provide a responsive regulatory framework to meet changing customer demand and to deliver government de-carbonisation initiatives. A responsive regulatory framework will deliver:

- **LV monitoring:** Allowance for EDBs to monitor LV networks to assist in the management of supply quality and reliability;
- **Network costs are captured:** Known and likely cost increases that would not be captured by the Draft Decision include increasing insurance costs and vegetation management;
- **Low cost distribution prices:** Low cost distribution services could avoid unnecessary network reinforcement. Funding EDBs to innovate and develop new tools and services to smooth network congestion will allow EDBs to delay or avoid network reinforcement needed in response to demand increases from EVs.
- **Consistent network quality and avoiding supply curtailment:** If EDBs invest in network management tools they will be able to ensure that networks remain stable. EV charging at peak demand may require curtailment ahead of the period required to complete network reinforcement if no management tools are initially implemented;
- **Government's decarbonisation targets:** By providing EDBs with funding flexibility, they will be able to adjust their businesses to meet government targets within the DPP3 regulatory period.
- **Customer equity:** The Electricity Price Review has strong themes of affordability and fairness which will require cost increases for customers with higher demand and low income customers could avoid price increases.

Section 4 suggests a number of refinements to the Draft Decision to allow EDBs to deliver customers with the expected quality and security of supply. The refinements will also allow EDBs to manage the network to support the introduction of new technology and the new services they will drive. WELL also suggests a number of other refinements to the operating and capital cost forecasting methods to address quality and cost uncertainty. These are addressed directly in the submission sections about operating and capital cost forecasts.

#### **4.1. Regulatory framework**

WELL supports refining the current regulatory structure of having a DPP for business as usual operations and a CPP for large investment programmes, with an interim regime for one-off project investments. WELL believes that with the introduction of customer DERs, the current regulatory framework does not provide the flexibility to allow EDBs to integrate new technology onto the network, in an efficient, low cost manner. There is a gap in the regulatory framework, in-between a DPP and CPP, for investments that are not captured by the current business as usual DPP framework and are not a large enough to represent an operational change or investment to require a CPP application. Applying for a CPP is an expensive, complex, whole of business process.

It is to the ultimate detriment of customers if EDBs can't make the necessary investments to support changes from the adoption of new technology. For example, if WELL had not been able to apply an economically viable 'streamlined' CPP process, it would not have been able to implement the Government Policy Statement which supported the Civil Defence and Emergency Management Act being taken into account when determining Part 4 investment in the long term benefit for customers in Earthquake Readiness. Further lifeline utility earthquake resilience plans have yet to be presented to government or considered for funding mechanisms. This may need to form part of DPP3.

Including an 'in-between' regulatory structure would be essential to support network investment needed to introduce new services, monitor the LV network and the implementation of dynamic EV charging modules to support cost reflective pricing to manage network congestion. Flexibility in the regulatory framework is needed to allow this to occur.

Adding flexibility into the current regulatory structure can be done in a number of different ways. WELL recommends leveraging the DPP framework to keep regulatory compliance costs as low as possible and suggests allowing one-off projects with additional scrutiny under the DPP. The additional scrutiny would be in the form of a business case which includes proof of customer support for the investment and independent verification of the cost estimate. Presentation of the business case would not have to be aligned with the DPP reset – having the ability to provide it within a DPP regulatory period would allow EDBs to respond to changing customer service requirements.

WELL recommends that this flexibility is included in the DPP3 reset, with details of the business case format and other selection criteria to be developed with industry within the DPP3 period.

## **4.2. Innovation fund**

In addition to adding flexibility to allow EDBs to fund the network to accept the introduction and operation of new customer DER services, EDBs also need the ability to monitor and manage the LV network to ensure all customers receive an equitable supply of electricity. The Electricity Price Review has a strong focus on customer fairness and affordability. Therefore, networks need to invest in tools which avoid cross-subsidisation of the investment needed to meet the increasing electricity demands of high income customers being passed onto low income customers.

WELL supports refining the proposed innovation fund by increasing the value. The proposed innovation fund lacks the urgency required to prepare the network for government initiatives around climate change. WELL supports the need for an innovation fund to support the introduction of potential new technology, but our concerned that the size of the fund is too small to support the level of investment needed to trial and introduce potential new services like EV demand management, or as suggested by the Commission, LV monitoring alternatives. The size proposed is unlikely to provide sufficient investment to meet a rapid increase in EV uptake. This in turn could cause supply capacity issues at the LV network level, requiring network reinforcement with an interceding period of curtailment of EV charging until reinforcement has occurred. Network reinforcement may create unnecessary delays to government climate change packages and would politicise regulation having failed to keep pace and support government policy initiatives.

In its explanation of why the innovation fund is being proposed, the Commission provided some evidence of the industry underinvesting in innovation when compared to other sectors (section 4.54 of the Draft Decision). This was a similar result to what Ofgem found in the UK until they established an innovation incentive scheme. We would encourage the Commission to review the suitability for a similar innovation incentive scheme administered through the regulator. WELL believes this business case application approach for funding is suitable for a low cost DPP3 approach.

WELL recommends that the Commission re-consider the UK model where EDBs apply with a business cases for innovation grants or funding for innovation project implementation.

## **4.3. New unforeseen connection re-opener**

WELL supports refining the reopener mechanisms to capture unforeseen changes to an EDB's cost base. The following amendments are recommended:

- Added flexibility to capture network investment needed to support decarbonisation initiatives for both existing and new connections. This would allow regulation to deliver government initiatives like the recent proposal to subsidise EVs, the accelerated electrification of transport fleets and the climate change zero carbon bill where EDBs as lifelines utilities are required to disclose (to the Minister for the Environment) adaption investments being made in direct response to climate change;
- A lower value criteria to ensure more de-carbonation initiatives are captured;
- Make the value criteria a fixed dollar amount rather than a percentage of revenue to ensure consistency across the network.

WELL believes the proposed reopener criteria needs to be flexible enough to capture all of the potential changes the New Zealand Government are proposing in their climate change and accelerated electrification initiatives. WELL suggests removing the restriction of a single new connection and allowing it to also be applied to existing connections which require adaptation investment (climate change zero carbon bill) or reinforcement to support electrification (in the case of transport and process heat initiatives).

The Commission have commented that the reopener has been designed to exclude general network growth as it would undermine the revenue cap. It is important to note that the revenue cap is designed for current levels of demand and on its own is not suited for non-traditional growth that will come from new customer DER services or government climate change initiatives. This growth will not come from new connections, but from increased demand from exiting connections. Increased demand could also conceivably occur as a product of reduced home heating from gas supply curtailment, as part of government's current carbon neutral 2050 strategy. The substitution of energy could create a significant change in network demand that would ideally be captured by a re-opener. Under the proposed criteria, this would not be captured.

Importantly, widening the criteria to capture different investment types will ensure that EDB services stay relevant to changing consumer demand. Without this adjustment, EDBs would not be able to make the required investment in the network without applying for a CPP, which creates delays and is unwieldy for specific new investment cases considered here.

#### **4.3.1. Length of the regulatory period**

WELL does not support reducing the length of the regulatory period. The additional cost of the DPP reset process and the impact on funding does not offset the additional flexibility given. WELL considers a better approach is to add flexibility to the DPP3 framework, allowing it to adjust to changing customer requirements.

### **5. Forecasting operating expenditure**

WELL maintains its view that the 'step and trend' approach used in the DPP2 reset is a reasonable approach but contains a number of weaknesses which need further refinement. We agree that a large proportion of operating expenditure relates to activities that reoccur. However, as outlined in WELL's Issues Paper response, new costs or cost increases are not fully captured.

The Commission identified \$59m in unexplained cost increases that were not captured by the DPP2 operating cost forecast mechanisms (Figure A1 and section A16 of the Draft Decision). There is also a growing element of increasing expenditure that the draft DPP3 mechanisms will also miss. This includes known cost increases in insurance premiums, likely increases in costs arising from signalled changes to tree regulations and expected econometric increases that the partial productivity factor is designed to capture.

WELL is also concerned that the current mechanisms will not capture changes in the costs needed to maintain the network. As assets age, maintenance will need to increase to maintain current reliability levels. For some asset fleets, WELL's evaluation of root causes relating to quality

performance shows that assets need to be augmented with further maintenance to reduce a particular failure mode which are likely to appear later in the asset life cycle.

Minor refinements to existing mechanisms would enable these costs to be captured. The following section describes these refinements. If the DPP3 framework is not amended to capture these costs, EDBs may have to spread existing allowances across a wider operating cost base.

### 5.1. Base year

WELL supports using the 2019 disclosure year as the base year.

As noted in section 3, not all of WELL's CPP opex allowance will be captured in the base year, therefore the base year will need to be updated to include Wellington's earthquake readiness operating costs.

### 5.2. Step changes

WELL recommends refining the step change mechanism to allow it to capture known cost increases that are currently missed. The Commission's assessment of the possible step changes (presented in the Draft Decision and summarised in table A3), demonstrates that there are known costs that will not be captured by the current mechanism. This highlights that there are gaps in the current DPP3 methodology and that the current mechanisms need additional flexibility to include legitimate costs involved in providing lines services. WELL's specific concerns highlighted by the Commission's assessment include:

- **Tree regulation changes:** WELL agrees that the reopener is a more appropriate mechanism due to the uncertainty of the outcome. However, the reopener's criterion only allows it to be applied for very large cost increases. While the resulting cost change could have a significant impact on an EDB's ability to fund its operations, it's unlikely that tree regulation changes will result in a cost increase greater than 1% of an EDB's revenue. Relaxing the reopener criteria would allow this cost to be captured.
- **LV network monitoring:** LV monitoring will be essential in facilitating the introduction of DER and WELL believes that the Commission's investigation into new quality measures will support the requirement for EDBs to monitor LV quality and real time data management. WELL believes that this is a verifiable step change that should be included in the DPP3. WELL recommends that the Commission request the cost information from EDBs.

Flexibility is needed to ensure known costs aren't missed from an EDB's allowances. WELL suggests that the step change criteria be relaxed to include costs that relate to a single EDB (rather than the majority) and that likely cost increases can be included. To provide the Commission with confidence that the costs are genuine, WELL recommends that EDBs support a request for cost increases with a business case.

#### 5.2.1. Vegetation management

In response to the performance of our quality path, WELL has introduced new business practices which are not constrained by the Hazards from Trees regulations. This has added costs to provision of lines function services to return vegetation interruptions to an acceptable level. This has been at

the expense of making operational cost savings in other areas which would have otherwise driven additional IRIS benefits for WELL. The additional spend in vegetation management is \$300k p.a.

WELL suggests that the step change criteria be relaxed to include vegetation management cost increases incurred by single providers (rather than the majority).

### **5.2.2. Insurance increases**

WELL is currently experiencing significant increases in its insurance renewal costs as the market adjusts its regional insurance strategies. Over the last four years, insurance costs have increased on average by 22% p.a. In the 2019/20 regulatory year, WELL's insurance increased by 26% and our insurance brokers have indicated that insurance costs will increase by a similar amount next regulatory year. If the 2018/19 regulatory years is used as the base year, the increase will be missed from the base. If the 2019/20 year is used as the base, then the expected 2019/20 increase will be missed from the base.

WELL is aware that the Commission are uncomfortable relaxing the assessment criteria of regulatory mechanisms like the step change adjustment. However, the consequence to consumers of not including insurance costs is that EDBs may consider reducing cover to offset the cost increase. The impact of this could expose customers to paying more after a major event for a greater number of uninsured assets.

Therefore, WELL recommends that insurance costs or changes to insurance premiums due to activities in insurance markets should be treated as a recoverable cost to maintain current levels of modest insurance cover. This approach is consistent with the treatment of the Fire and Emergency Service levy.

Alternatively, the cost increases could be included as step change if the criteria were relaxed.

### **5.2.3. Fire and Emergency Service levy**

WELL supports the Commission's decision to treat the Fire and Emergency Service levy as a recoverable cost.

## **5.3. Forecasting network scale growth**

WELL maintains its views and concerns outlined in its response to the Commission's Issues Paper about the proposed methods for forecasting changes in network scale growth. Network growth has been traditionally measured as an increase in new connections and line length. However, network growth in the future will also come from an increase in demand from existing connections – as EVs and other DERs demand more energy to be delivered across the existing network. To manage a significant increase in demand, additional costs will come from non-traditional activities to support a more active network:

- Purchasing demand response services.
- Monitoring of the LV network to manage new DER demand;
- Active scheduling of EV demand to be non-coincident with network peak demand;
- Increasing reactive maintenance as call outs increase as network demand increases;

- Re-enforcement of the existing network, increasing equipment on the network that needs maintaining.

WELL supports using the proposed network regression model to forecast cost increases resulting from traditional network growth. WELL also believes that EDBs and the Commission will need to monitor how the growth in new DER will impact network operating costs. If these new services are driving additional cost, an additional model will need developing to forecast cost increases for non-traditional network growth – costs associated with managing a significant increase in demand on the existing network.

While ‘non-traditional’ network growth models are considered, WELL asks the Commission to reconsider the partial productivity adjustment as presented by the ENA and is supported by the NERA report. This will help capture *past* cost increases that have been driven by non-traditional network growth.

It is important to note, that the partial productivity adjustment will not capture *new* ‘non-traditional’ network growth. If during the development of the suggested ‘non-traditional network growth models’, significant new costs are identified within the DPP3 period, the new reopener mechanism could be used to introduce the new costs, if it has been modified to provide it with the required flexibility (see section 4.3).

### **5.3.1. Traditional network growth**

To capture traditional network growth, WELL supports the proposed regression model that uses ICP growth and change in circuit length as cost drivers - the regression model shows these metrics to be strong indicators of traditional network growth.

#### ***Forecasting ICP growth***

However, as demonstrated in WELL’s response to the Issues Paper and in the Draft Decision (figure A3), the relationship between population growth and ICP growth is weak. At an aggregated level, Figure A3 of the Draft Decision shows household growth to be a better predictor of ICP growth. However, a better understanding is needed of how effective household growth is at predicting ICP growth on specific networks before WELL would be confident using it.

WELL recommends using the AMP forecast of ICP growth – EDBs are best placed to forecast ICP growth and are able to incorporate local knowledge. This method would also be consistent with the CAPEX forecast for new connections growth. The forecast growth rate could be scrutinised by comparing it to the most recent year’s actual growth, ensuring the growth rate used reflects current economic conditions.

#### ***Forecasting circuit length growth***

WELL’s preference is to use an EDB’s own forecasts for line length growth - EDBs have the local knowledge and expertise to develop accurate forecasts.

However, due to the cost needed to collect the additional forecast data and the stable trend in circuit length growth, WELL is comfortable with the Commission’s proposed approach of projecting an EDB’s historic line length growth.

Note, line length will not capture LV reinforcement.

#### **5.4. Partial productivity factor**

WELL disagrees with the proposed approach of using a partial productivity factor of zero. As illustrated in Figure A1, there are genuine cost increases that are not captured by the DPP forecast model. WELL supports the ENA's view on the partial productivity factor and the supporting NERA report highlighting the extent of the under recovery. WELL supports the ENA's view and defers to the ENA's submission on this subject.

As outline in section 5.3, WELL agrees with NERA's summary of the weaknesses of the proposed DPP opex reporting mechanism – that cost growth is limited to changes in the size of the traditional network (line length and number of ICPs) and no allowances are included for other drivers that might change operating costs over time (like aging networks, changing reporting and quality monitoring requirements, regulatory compliance etc.).

As suggested in the ENA's submission and supported by NERA's study, it is essential to include a negative partial productivity factor to capture cost changes that are missed by the current mechanism. If genuine costs are not captured in the allowances, EDBs will have to spread existing expenditure across a higher cost base.

#### **5.5. Opex price inflation**

WELL supports using an all industries LLC and PPI to forecast operating cost inflation as a starting point. However, WELL is concerned that the labour forecast doesn't reflect the labour cost pressure in the electricity industry. The Draft Decision shows weak real labour cost growth over the forecast period. As highlighted in the ENA's submission, the Draft Decision forecasts real wage inflation at an average of 0.4% over the five years of the DPP. This looks unrealistic when considering the tightening labour market caused by CPP programmes, the aging work force and close to full employment.

WELL's concern that the tightening labour market isn't supported by inflation forecasts is supported in the NZIERs June Consensus Forecast<sup>2</sup>. The Consensus Forecast shows overall CPI inflation is expected to remain stable while labour markets are expected to remain tight. This supports the view that there should be a meaningful increment in the labour forecast above general inflation (i.e. real labour inflation).

WELL requests that the Commission seek NZIER to investigate the labour forecast to confirm it is appropriate and consider whether an adjustment is needed for the electricity distribution sector.

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<sup>2</sup> The NZIER's Consensus Forecast can be found at:  
[https://nzier.org.nz/static/media/filer\\_public/7f/4b/7f4bf667-aecc-4a71-b1c9-5d62ea39d19a/consensus\\_forecasts\\_jun\\_2019.pdf](https://nzier.org.nz/static/media/filer_public/7f/4b/7f4bf667-aecc-4a71-b1c9-5d62ea39d19a/consensus_forecasts_jun_2019.pdf)

## **6. Forecasting capital expenditure**

### **6.1. Overall approach to capital expenditure forecasts**

WELL supports the Commission's decision to continue to use an EDB's AMP to forecast capital expenditure. As outlined in WELL's response to the Issues Paper - AMPs are developed through a robust internal planning process based on detailed knowledge of asset performance and network characteristics, they are subject to internal review and robust governance arrangements, and have received Director Certification of the reasonableness of expenditure forecasts.

WELL also understands the Commission wanting to scrutinise the capital expenditure forecast and supports the general approach of first applying a test of overall forecast accuracy, before cost driver based tests are applied to the major capex categories. WELL also supports the level of disaggregation applied. As outlined in the submission to the Issues Paper, WELL supports limiting disaggregation to the larger capital expenditure classes, (asset replacement, system growth and consumer connections) as this will help maintain a low cost approach.

However, care must be taken that high level forecasts designed to suit the majority don't result in the perverse outcome of reducing genuinely needed capital allowances for a minority. The Commission recognise this risk (B47 of the Draft Decision) and suggest that the tests could be improved with the collection of better information via the Information Disclosures. WELL agrees that better information could improve some of the tests (especially the Systems Growth test), however, this will be too late for some EDBs as capital forecasts may have already been reduced. WELL suggests that as the capex gates are refined and tested, a staged approach is taken to how they are applied:

1. Apply the first, overall forecasting accuracy test, as proposed. This will provide consumers with confidence that EDBs are delivering what they forecast.
2. Apply the proposed secondary gates and publish the results. However, don't revert to the historical average if an EDB fails.

A staged approach will allow the tests to be refined and for EDBs to adjust their internal process and forecast methods to the new gates. It is important to note that current EDB forecasts have been developed for management and capital planning purposes and have not have been developed with consideration given to the alternative purpose of the new tests and may not consider the level of detail and accuracy required by the proposed gates.

Most importantly, a staged introduction to the gates will help to avoid EDBs having a shortfall in their allowances.

#### **6.1.1. Historic reference period**

WELL supports the Commission's proposed approach of using a five year reference period. It is more important for the historical data to be robust than for the data set to span a longer period of time. Data prepared post 2013 using the current Information Disclosure rules will provide a more sensible (apples with apples) comparison than data prepared using a different set of rules. The more recent data set is also more representative of the asset management practices currently employed. A five

year reference period is also in line with the IEEE recommended approach<sup>3</sup> for quality and we recommended both price and quality align with a five year reference period.

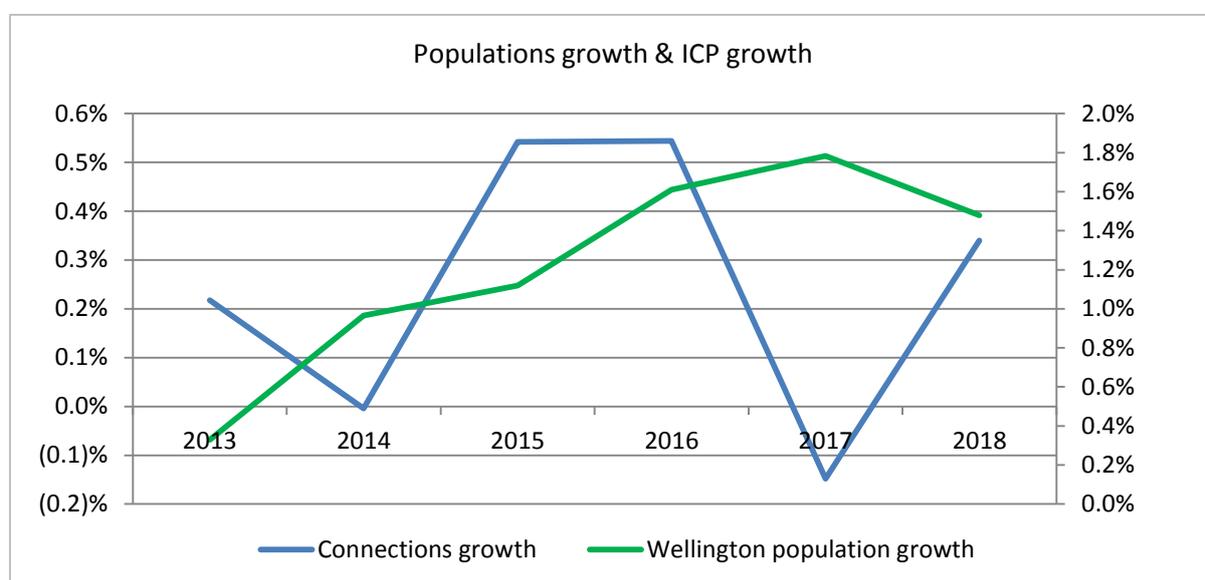
### 6.1.2. Scrutinising past forecast performance

WELL supports the forecast scrutiny test. The test recognises that EDBs will re-prioritise projects between capital expenditure categories as programmes are refined with asset health assessments and changing consumer requirements.

### 6.1.3. Scrutinising forecast of residential connections

In line with WELL’s comments in section 5.3.1 and in WELL’s submission to the Issues Paper, population growth is not a good predictor of ICP growth. Figure 1 below was provided in WELL’s submission to the Issues Paper to demonstrate this.

**Figure 1: Relationship between population growth and ICP growth**



Historic ICP growth may also not be a good predictor of future growth as the drivers of new connections change over time. ICP growth in Wellington for the last two years has been approximately 2,400<sup>4</sup> per year. The average for the four years before then was 1,500 per annum.

WELL recommends that population growth is excluded from the gate (because it can be a poor predictor of ICP growth for some EDBs) and a 120% cap above historic ICP growth is applied to the ICP forecast to capture situations where future ICP growth is expected to exceed past growth. This approach is also consistent with other capital forecast tests which included a cap.

### 6.1.4. Scrutinising per connection expenditure

WELL supports the Commission’s approach of assessing per-connection expenditure. The 150% cap takes into account cost differences between different connection types.

<sup>3</sup> IEEE Guide for Electric Power Distribution Reliability Incidences (1366).

<sup>4</sup> The figures are based on the Information Disclosure’s new connections and includes the unaudited 2019 ICP growth.

### 6.1.5. Scrutinising forecast system growth

WELL's submission on the proposed approach to scrutinising the system growth forecast has two parts:

- Aligning the Commission's models to the EDBs AMP (6.1.5.1 **Error! Reference source not found.**)
- Providing feedback on the appropriateness of the systems growth gateway test (6.1.5.2)

#### 6.1.5.1. Aligning the Commission's models to the EDB's AMP

The unusual results of WELL's gateway test summarised in the Draft Decision and in the Commission's financial models, are a result of inconsistencies in the input data used for the financial calculations. Applying the adjustments will align the Commission's models with the EDB's AMP. The following adjustments assume the Commission's models have been updated for WELL's 2019 AMP.

The following corrections should be made to the "Inputs – MVA" worksheet of the Commission's 'Capex-projections-feeder-gating-model-EDB-DPP3-draft.xlsx' financial model:

- Correct the spelling on the 2014 Mana-Plimmerton zone substation name from 'Mana-Plmtn' to 'Mana-Plimmerton'. This will ensure the formula doesn't incorrectly recognise this as a new zone substation and an increase in MVA.
- Correct the spelling on the 2016 Trentham zone substation name from 'Trentam' to 'Trentham'. This will ensure the formula doesn't incorrectly recognise this as a new zone substation and an increase in MVA.
- Add a new 24 MVA zone substation for Pauatahanui for 2022. This was included in the AMP but was missed from the AMP forecast spreadsheets. The 2019 AMP describes the new zone substation:
  - a. In detail in chapter 8.5 of the 2019 AMP
  - b. In the comments of the zone substation AMP forecast schedule on lines 20 and 26 (however, WELL missed including it in the forecast itself).
  - c. The costs for the zone substation were included in the AMP forecast and are detailed in table 8.33.

Appendix A provides the unchanged financial model input table from the Draft Decision financial models (the "Inputs – MVA" worksheet of the Commission's 'Capex-projections-feeder-gating-model-EDB-DPP3-draft.xlsx') that have been updated with WELL's 2019 AMP.

Appendix B provides a corrected financial model input table from the Draft Decision financial models (the "Inputs – MVA" worksheet of the Commission's 'Capex-projections-feeder-gating-model-EDB-DPP3-draft.xlsx') that have been updated with WELL's 2019 AMP.

#### 6.1.5.2. The proposed systems growth gateway

Developing an effective gate for systems growth from the information currently available from the Information Disclosures is the most difficult of all the assets classes. The proposed test of comparing the forecast cost per additional MVA from new zone substation investment with the historical cost

appears reasonable based on using the available data. However, the test has a number of weaknesses that could result in an EDB foregoing essential capex allowances:

- Some networks like WELL may not have a history of consistent zone-substation growth. This could result in volatile historic data that does not reflect future spend.
- Zone substation growth is only one way a network can grow. If zone subs have enough capacity new growth may come from increasing the capacity of the distribution feeders.
- The test doesn't recognise non-traditional system growth, like the investment needed to support DERs.

For these reasons, WELL supports using the next DPP3 period to collect better information through the Information Disclosures, to support a more robust test. However, given the potential under-investment in the network that applying the proposed test on EDBs could result in, WELL recommends using an EDB's systems growth forecast until better tests are developed. The Commission will have comfort that an EDB is delivering their overall capex programmes from the initial capex test which scrutinises past forecast performance.

#### **6.1.6. Scrutinising forecast Asset Replacement and Renewal and depreciation**

WELL supports using a capital expenditure/depreciation ratio with a 125% cap, to scrutinise asset replacement and renewal and reliability, safety and environment investment. The 125% cap applied to the capital expenditure/depreciation ratio provides enough flexibility to capture differences between an asset's economic book life and its actual useful life, as assessed by EDBs' asset health indices.

#### **6.1.7. Scaling of minor capex categories**

WELL supports the Commission's approach to applying a sliding cap to the minor assets categories.

#### **6.1.8. Falling back to historical average**

Falling back to the historical average if a capex test is failed does not work for asset classes where work programmes are erratic or lumpy. The historic average is less likely to provide a sensible substitute for the AMP forecast. Alternatively, an EDB may have to invest in critically important asset replacements or respond to changes to meet quality standards, at a level of investment that is higher than the historic average. Reverting back to the historic average could result in necessary investments being foregone. As outlined in section 6.1, WELL recommends reverting back to the AMP until the capex tests are further refined.

#### **6.1.9. Apply aggregate 120% cap**

WELL does not support the final adjustment of applying a 120% cap on the residual capex after all of the tests are applied. As outlined in WELL's submission to the Issues Paper, smoothing or limiting capital expenditure can produce sub-optimal investment decisions. Asset investment is timed with asset deterioration, customer connections with new developments and system growth with energy demand requirements. Limiting how much capital can be spent within a year or pricing period can result in assets being replaced too early or late, delays to new connections or the network not augmented to meet increasing capacity demands.

#### **6.1.10. Capex inflation**

WELL supports the Commission's proposed approach of using all industries CGPI to forecast capital expenditure cost inflation. Consistent with our view of which operating cost inflators to use, all industry forecasts are less volatile than the industry or regional specific forecasts.

#### **6.1.11. Treatment of spur asset purchases**

As per WELL's submission on the Issues Paper, WELL believes the Commission should neutralise the impact of the IRIS adjustments for distributors who have purchased transmission assets. The potential impact of additional operating costs from a spur asset could be significant and EDBs should be confident they will not be penalised when considering spur asset purchases.

### **7. Efficiency incentives**

WELL does not support increasing the Capex IRIS incentive rate due to the risk of penalising EDBs for genuine capital expenditure. Capital expenditure by nature is lumpy and is difficult to smooth. The IRIS is based on capex allowances that may have been reduced under the capex gateways and may not reflect the actual capital expenditure profile needed by an EDB. EDBs will often have genuine reasons for spending more than the capex allowance. This could include unexpected expenditure like reacting to repairs from major events or expenditure needed to support a rapid growth in emerging technology. It could also be because assets need replacing to maintain current service quality but the replacement costs do not fit under the cap. The extra expenditure may not be large enough to justify an expensive CPP.

The new capex gates may exacerbate this even further. As the Commission has suggested, the new capex gateways are based on high level tests which maybe imperfect and there is a risk of unintended consequences. The Commission also notes there is room to improve the capex scrutiny through gathering better information via the information disclosures.

WELL recommends delaying the increase of the capex retention rate until the capex scrutiny methods have been embedded into EDBs' own internal processes. The consequence of under-investing is too great for the increased rate to be sensibly introduced until the capex scrutiny is refined.

### **8. Revenue cap with wash-up**

WELL supports the revenue cap mechanism for business as usual operation of the network. To meet the demands of customer DERs, the revenue cap needs the support of additional mechanisms that provide the regulatory model with the flexibility to capture growth driven by new technology (as proposed in previous sections of this submission).

WELL does have two concerns around the operation of the revenue cap – both relate to Transpower's influence on the operation of the revenue cap.

### **8.1. Applying 10% revenue limit on an annual increase in price**

WELL would like the 10% limit on annual price increases to only apply to EDB costs – pass through and recoverable costs should be excluded. If the 10% was applied to total revenue, large changes in Transpower costs could impact an EDBs ability to recover its costs or earn a fair return. Wellington has the largest proportion of Transpower cost of any network (approximately 35% of its revenue), exposing its ability to make a stable return to changes in Transpower’s operating costs.

### **8.2. Impact of Transpower’s supply on revenue forgone**

WELL understands the need for the revenue foregone adjustment – to encourage EDBs to look for cost savings when there are severe outages, sharing the risks of a severe outage with consumers. However, WELL is uncomfortable foregoing revenue if the reason for the inability to supply energy is due to a major Transpower service outage outside of an EDB’s control. The impact of this would be even greater if an EDB is still required to pay Transpower for its services during a Transpower caused outage and was required to meet Use of Network Agreement payment obligations to customers via retailers (service level penalty payments).

## **9. Reliability standards and incentives**

WELL disagrees with the proposed new unplanned reliability breach assessment and the planned quality targets. The proposed unplanned reliability breach assessment will increase the number of breaches simply because of a tighter target – not because of a deterioration of supply or because customers are demanding higher reliability. On the Wellington network customers’ consistent response are to maintain the current reliability levels. Current reliability levels include an acceptance that some interruptions caused by natural events are inevitable for current price levels.

WELL has an overall concern that the proposed quality changes could distort the current price/quality trade-off. The proposed changes to the quality targets are pressuring EDBs to improve quality despite customers being comfortable with current levels of reliability while also increasing the likelihood of breaching. This is at a time when allowances are under pressure from greater business as usual costs. Increasing quality without increasing price is not sustainable if customers do not want either to increase.

WELL supports the ENA’s view and defers to the ENA’s submission on quality – with the exception of separating planned and unplanned reliability, which WELL opposes. The following submission points are on aspects WELL considers to be important. The ENA’s analysis of the proposed changes show some contradictions to the Commission’s own analysis and conclusions. WELL requests that the Commission work through the models with the ENA to ensure the model is correct so the changes are producing the expected outcomes.

### **9.1. Major event normalisation**

The proposed new normalisation methodology is complex and will add regulatory cost to implement. However, WELL supports the new model as it does reduce the quality volatility resulting from major events, allowing regulation to better focus on the underlying asset performance. Therefore, the proposed model is improving the intended outcome of normalisation as defined by

the Commission in section K2 of the Draft Decision “to limit the impact of these major events, so that the standards we impose and the incentives distributors face are not merely reflecting unpredictable events”.

## **9.2. Annual unplanned standard**

WELL opposes the new unplanned quality breach annual test. Applying the new quality framework to past data shows the new tests would result in a significant increase in the number of breaches. The ENA’s submission will show that the number of EDB breaches will increase by 67% across the industry. Only 4 from the 17 price/quality regulated EDBs would not have breached under the proposed changes. This differs from the Commission’s intended outcome of not increasing the severity of the assessment (L25 of the Draft Decision). The increased buffer does not offset the impact of removing the two out of three rule as suggested in L29 of the Draft Decision.

The Draft Decision highlights the reason that the two out of three rule was introduced was to reduce the risk of ‘false positives’. The Commission now considers improved normalisation and a buffer above the historical mean will provide a more effective means of doing this. WELL disagrees with this statement. Normalisation is applied to both actual and historic data so it won’t have a significant impact on the number of breaches – rather, it removes ‘noise’ from the quality data set.

Increasing the buffer also won’t improve the identification of asset deterioration – rather it will set an arbitrary gate for when an investigation will be applied. Detecting deterioration in assets’ performance requires establishing a trend, which is not possible with a single year test. Because quality performance is the result of many moving parts, it may be three or four years before an asset trend becomes unmasked due to the multiple factors involved. This requires a multiyear test, and the effect cannot be replicated by adjusting the buffer. As outlined by the ENA:

*“A single year test implies that material deterioration occurs immediately, not over time. This is not consistent with asset performance in practice, where asset strength weakens over a prolonged period. While failure mode curves increase near end of life, this rarely manifests as a single year step change. A sudden change in reliability in a single year, with no previous indication, is therefore unlikely to reflect material deterioration of network performance. Rather, such an event will more likely arise from statistical variation, for example due to significant weather patterns.”*

WELL supports reverting back to the two out of three rule. As stated by the ENA and quoted in section L26 of the Draft Decision, the rule “recognises the fact that unplanned outages are caused by external events and are subject to year on year volatility. As these events generally occur for reasons which are beyond the immediate control of EDBs, a sustained trend of non-compliance is an appropriate trigger for a compliance standard breach”. The Commission recognises the volatility issue and only proposed removing the two out of three rule because of the normalisation and buffer. As discussed above, WELL does not believe that volatility has been reduced by the proposed changes, and as such the two out of three rule should not be removed.

Reverting back to the two out of three rule is also consistent with the Commission’s view expressed in the final DPP2 determination in section 2.7 of its paper titled Quality-standards-targets-and-incentives-Final-decision-EDB-DPP-2015-to-2020-28-November-2014: “The quality standards employ

*the two-out-of-three year rule because this allows for one-off poor performing years, which alone may not constitute an underlying material deterioration of reliability (for example, due to natural variability)”.*

WELL would also like to comment on section L28 of the Draft Decision where the Commission comment that they have investigated and publicly commented on three distributors who have contravened the DPP2 quality standards and in each case it has found that the contraventions were, at least in part, caused by failure of those distributors to act consistently with good industry practice. Conversely, they have not found contraventions of the quality standard so far in the current regulatory period to be caused by random volatility.

WELL was one of the EDBs that were investigated. Strata implemented the investigation into WELL’s breach and commented in its concluding statement (page 206) “Accordingly, Strata has concluded that there are no reasonable additional steps or actions WELL could have taken that would have avoided non-compliance”. Strata’s findings suggest that there were quality breaches caused by random volatility. A full summary of Strata’s findings is provided in Appendix C.

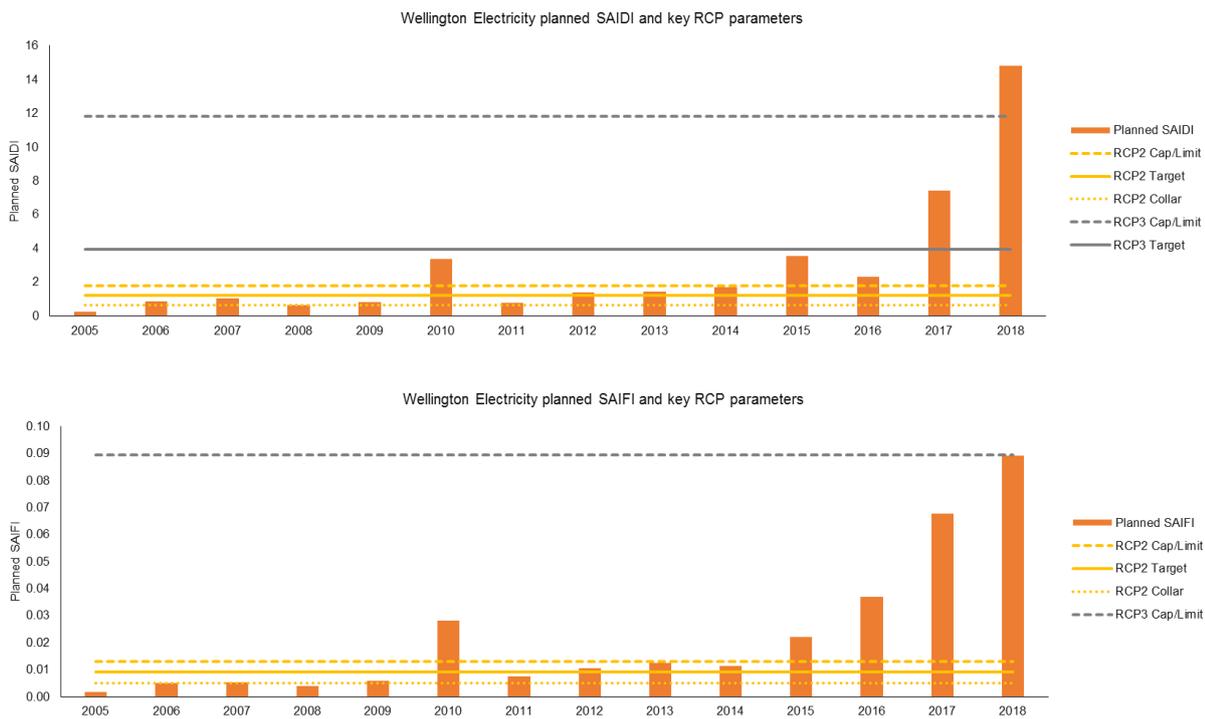
### **9.3. Planned outage targets**

WELL does not support separating planned and unplanned outages. In reality, there is no long term incentive for EDBs to offset outage totals by avoiding planned works. Reducing planned works will have the impact of increasing unplanned outages and will likely increase maintenance costs, because the network hasn’t had the required capex investment or maintenance activity applied.

Under the previous DPP2 method, the impact of the change in live line work practices (due to the Health and Safety at Work Act 2015) was diluted across a larger unplanned data set as planned outages on WELL’s network made up a small portion of total outages. The impact in 2019 on planned outage count was reduced further by using generation to maintain customer supply at the LV level while the High voltage (HV) was isolated for de-energised work.

Under the proposed method of separating planned outages and using a 10 year reference period for the planned quality target calculation, WELL forecasts it will be exposed to payments of a quality incentive penalty and will continuously risk breach unless planned work is reduced to 30% of current levels. Changes to live line work practices that started in 2016 mean that planned outages have increased significantly as more work is implemented de-energised. Figure 2 below demonstrates the significant increase in de-energised planned work on the Wellington Network. The analysis comes from the PwC analysis commissioned by the ENA. The figure also shows the step change in quality targets under the DPP2 and DPP3 regimes.

**Figure 2: WELL’s planned outage performance for the DPP2 and DPP3 regimes**



The graphs show that under the proposed DPP3 assessment, WELL would have breached in 2018 and would always pay an incentive penalty ever since new live line work practices were introduced. WELL estimates that it will pay \$90k in penalties p.a. under the proposed regime<sup>5</sup>. In addition, in 2019 WELL funded approximately \$700k p.a. worth of generation to offset 6 minutes of SAIDI impact due to changed live line/de-energised work practices. This was funded from the DPP2 quality incentive mechanism of investing to lower the quality performance to the collar through incentive funding received in the following year. This created the correct quality investment tension that should be retained in DPP3. This funding will no longer be available under the proposed incentives and WELL will incur \$700k worth of additional cost to maintain DPP2 reliability levels which are too high for those now considered under DPP3. It is also important to note that live line/de-energised work practices have taken time to embed which is why planned outages have been slowly increasing.

The figures clearly show that the 10 year data set is not representative of current live line/de-energised work practices. WELL recommended either adjusting the data set to remove the impact of the change in live line work practices or shortening the reference period to only include the years since the work practices were changed:

- WELL is providing audited SAIDI and SAIFI data which has been impacted by the change in work practices as part of the Commission’s 53ZD information request. This will allow the Commission to adjust the reference data set.
- WELL is also providing audited SAIDI and SAIFI data showing the impact of generation. This will allow the Commission to add back the generation minutes to the data set. This is

<sup>5</sup> This calculation assumes the incentive scheme proposed in the Draft Decisions.

important because WELL was funding generation from the DPP2 quality incentives. The DPP3 quality incentives will be reduced to the point that this will no longer be commercially viable.

- Like most EDBs, WELL started applying the new work practices in 2016. Limiting the data set to the last five years (once the 2019 Information Disclosure is included) will allow a more representative data set to be used.

#### **9.4. Advanced notice planned outages**

WELL does not support the advanced notice planned outage under the proposed incentive regime. The cost of operating an auditable process to track and monitor advanced notices will be higher than the quality incentive realised for improving planned quality performance. WELL estimates the cost of implementing, operating and auditing advanced notice planned outages to be approximately \$120k p.a. On the Wellington network 40% of planned SAIDI is for works less than four hours. Halving this with notifiable outages would provide a 20% SAIDI savings which is worth approximately \$30k p.a. under the proposed incentives, a shortfall of \$90k p.a.

In addition, WELL is concerned that the incentives could introduce new work behaviours by having the pressure of shorter time periods to finish their work within the four hour period, which could unintentionally introduce a level of risk taking. As highlighted by the ENA, this could conflict with the Health and Safety at Work Act 2015 which requires that financial incentives are not placed ahead of safety outcomes.

WELL supports including this as an Information Disclosure before it's included as a quality incentive. This will help refine the measures before quality incentives are applied. WELL also suggests that the costs to implement the new reporting and audit requirements are included as a step change recovery.

#### **9.5. Extreme outage compliance standard**

WELL does not support the extreme outage compliance standard. WELL is concerned that the high potential penalty of a breach (a maximum of \$5m) will drive an over investment in the network. The VOLL of a 5.29 SAIDI minute outage is \$580k at \$25k/MWh. This is significantly less than the size of the potential penalty, suggesting EDBs could be incentivised to invest more than what customers would value as an outage of this size.

WELL supports including the measure as a reporting requirement or retaining the status quo.

#### **9.6. Cap of changes in reliability standards between regulatory periods**

WELL opposes the application of the 5% cap on quality movements between regulatory periods. WELL agrees that EDB's poor performance should not be 'rewarded' with relaxed standards. However, the 5% rate to define what is an acceptable movement in inter-period quality targets is arbitrary and does not reflect that a 5% movement on a more reliable network represents a small absolute movement in quality, and hence has a much smaller impact on customers than a 5% move on a less reliable network. Highly reliable networks will have a much more restricted assessment of what is an acceptable movement between periods.

The DPP2 caps and collars represent an acceptable range of network quality, noting that this has transitioned from a five year reference period (DPP1) to a 10 year reference period (DPP2) to a 5% movement on the DPP2 target (with no reference to past network quality performance). This does not provide either predictability or certainty expected from a low cost price quality regime.

WELL recommends setting the inter-period movement cap to be within the current DPP2 one standard deviation range.

### **9.7. Quality incentives**

WELL cannot support the change in quality incentives. Assuming current levels of planned work, the proposed amendments would penalise WELL approximately \$90k each year unless it can defer approximately two thirds of the current (2018) planned work volume (refer to figure 2).

However, WELL does not believe this is the intention of the Commission and expects that the planned quality targets will be adjusted for the purpose of providing feedback on the new quality regime.

WELL opposed increasing the revenue at risk in its response to the Issues Paper because of a concern that increasing the revenue at risk will promote a level of investment beyond what customers want. WELL is now concerned that the new incentives have reduced the quality incentives on urban networks to a point where there is no incentive to improve quality. For WELL, the quality incentive drops from \$95k per SAIDI minute to \$23k per SAIDI minute. The incentive is now too small for urban EDBs to fund quality improvement or have the ability to adjust their work practices to changes in the operating environment that impact reliability.

WELL believes the current quality incentive is driving the right behaviour for EDBs to make marginal quality improvements for customers (as opposed to changing the current price/quality trade-off which would require CPP level funding). For example, WELL used the quality incentives to fund generation to offset the impact of changes to live line/de-energised work practices.

WELL recommends retaining the current quality incentive regime that sets quality incentives as a proportion of revenue. This will help ensure EDBs on urban networks are incentivised to make marginal quality improvements.

### **9.8. New quality measures**

WELL supports the Draft Decision to not include any new quality measures and to explore new customer metrics in the DPP period. WELL also supports the proposal to consider changing information Disclosures to ensure data is collected to support any new standard.

This will also allow the industry to ensure that any new measure reflects the quality that customers find important.

## **10. Closing**

WELL appreciates the opportunity to provide a submission on the Commerce Commission's Draft Decision "Default price-quality paths for electricity distribution businesses from 1 April 2020".

If you have any questions or there are aspects you would like to discuss, please don't hesitate to contact Scott Scrimgeour, Commercial and Regulatory Manger, at [sscrimgeour@welectricity.co.nz](mailto:sscrimgeour@welectricity.co.nz) .

Yours sincerely

A handwritten signature in red ink, appearing to read 'G Skelton', written in a cursive style.

Greg Skelton

**Chief Executive Officer**

**Appendix A: Uncorrected zone substation MVA forecast for the “Inputs – MVA” worksheet of the Commission’s ‘Capex-projections-feeder-gating-model-EDB-DPP3-draft.xlsx’ financial model**

	Installed Firm Capacity (MVA)							Installed Firm Capacity +5 years (MVA)
	2013	2014	2015	2016	2017	2018	2019	2019
8 Ira St	24	24	24	24	21	21	21	21
Bond St	-	-	-	-	-	-	-	-
Bond Street	-	-	-	-	-	-	-	-
Brown Owl	23	23	23	23	22	22	22	22
Evans Bay	24	24	24	24	19	19	19	19
Frederick St	36	36	36	36	23	23	23	36
Gracefield	23	23	23	23	20	20	20	20
Hataitai	23	23	23	23	22	22	22	22
Johnsonville	23	23	23	23	21	21	21	21
Karori	24	24	24	24	21	21	21	21
Kenepuru	23	23	23	23	19	19	19	19
Korokoro	23	23	23	23	17	16	17	17
Maidstone	22	22	22	22	19	19	19	19
Mana-Plimmerton	16	-	16	16	16	16	16	16
Mana-Plmtn	-	16	-	-	-	-	-	-
Moore St	36	36	36	30	30	30	30	30
Naenae	23	23	23	23	22	22	22	22
Nairn St	30	30	30	30	25	25	25	25
Ngauranga	12	12	12	12	12	12	12	12
Pauatahanui								0
Palm Grove	24	24	24	24	24	24	24	24
Petone	20	-	-	-	-	-	-	-
Porirua	20	20	20	20	20	20	15	15
Seaview	22	22	22	22	18	18	18	18
Tawa	16	16	16	16	16	16	16	16
The Terrace	36	36	36	36	30	30	30	30
Trentam	-	-	-	23	-	-	-	-
Trentham	23	23	23	-	23	23	23	23
University	24	24	24	24	24	24	24	24
Waikowhai	19	19	19	19	19	19	19	19
Wainuiomata	23	20	20	20	20	20	20	20
Waitangirua	16	16	16	16	16	16	16	16
Waterloo	23	23	23	23	23	23	23	23

**Appendix B: Corrected zone substation MVA forecast for the “Inputs – MVA” worksheet of the Commission’s ‘Capex-projections-feeder-gating-model-EDB-DPP3-draft.xlsx’ financial model**

	Installed Firm Capacity (MVA)							Installed Firm Capacity +5 years (MVA)
	2013	2014	2015	2016	2017	2018	2019	2019
8 Ira St	24	24	24	24	21	21	21	21
Bond St	-	-	-	-	-	-	-	-
Bond Street	-	-	-	-	-	-	-	-
Brown Owl	23	23	23	23	22	22	22	22
Evans Bay	24	24	24	24	19	19	19	19
Frederick St	36	36	36	36	23	23	23	36
Gracefield	23	23	23	23	20	20	20	20
Hataitai	23	23	23	23	22	22	22	22
Johnsonville	23	23	23	23	21	21	21	21
Karori	24	24	24	24	21	21	21	21
Kenepuru	23	23	23	23	19	19	19	19
Korokoro	23	23	23	23	17	16	17	17
Maidstone	22	22	22	22	19	19	19	19
Mana-Plimmerton	16	16	16	16	16	16	16	16
Mana-Plmntn	-	-	-	-	-	-	-	-
Moore St	36	36	36	30	30	30	30	30
Naenae	23	23	23	23	22	22	22	22
Nairn St	30	30	30	30	25	25	25	25
Ngauranga	12	12	12	12	12	12	12	12
Pauatahanui								24
Palm Grove	24	24	24	24	24	24	24	24
Petone	20	-	-	-	-	-	-	-
Porirua	20	20	20	20	20	20	15	15
Seaview	22	22	22	22	18	18	18	18
Tawa	16	16	16	16	16	16	16	16
The Terrace	36	36	36	36	30	30	30	30
Trentam	-	-	-	-	-	-	-	-
Trentham	23	23	23	23	23	23	23	23
University	24	24	24	24	24	24	24	24
Waikowhai	19	19	19	19	19	19	19	19
Wainuiomata	23	20	20	20	20	20	20	20
Waitangirua	16	16	16	16	16	16	16	16
Waterloo	23	23	23	23	23	23	23	23

## **Appendix C: Summary of Strata's finding of WELL's 2016 breach investigation**

212 In summary, addressing the Commission's specific questions Strata concluded that:

- a) the breaches in reliability limits have been mainly due to vegetation management issues emerging during severe storm events causing flying debris connecting with overhead lines. It is possible that some age related deterioration of the overhead assets may have contributed to the failures during severe weather;
  
- b) the asset management strategies developed and implemented by WELL were appropriate and there is no evidence that underinvestment has led to the breaches of the reliability limits;
  
- c) WELL could not have taken any reasonable steps or actions that would have avoided non-compliance due to the effects of severe storm events;
  
- d) there is no reason to conclude that the reliability of the network will deteriorate due to a lack of funding of the vegetation management activities. Strata considers that WELL management is knowledgeable on vegetation issues and has in place appropriate programmes to engage with stakeholders;
  
- e) initiatives being implemented by WELL to develop asset and vegetation management will to some extent mitigate the impact of future severe weather events and enable asset replacement programmes to anticipate potential asset failure; and
  
- f) WELL's continuing development of its asset management capabilities, systems and methods are likely to ensure that appropriate steps are taken to mitigate network performance risks.