

31 October 2014

John McLaren  
Manager, Regulation Branch  
Commerce Commission  
PO Box 2351  
**WELLINGTON**

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

Dear John,

## **SUBMISSION ON DPP DRAFT DETERMINATION, IM AMENDMENTS AND ASSOCIATED COMPANION PAPERS**

This letter responds to the Commission's consultation on the technical drafting of the Draft Determination for the 2015-20 DPP (the Draft DPP Determination),<sup>1</sup> and related proposed amendments to the input methodologies (IMs) (the Draft IM Determination)<sup>2</sup> and the incremental rolling incentive scheme (IRIS) IMs (the Draft IRIS IM Determination).<sup>3</sup>

We have also considered the issues raised in the papers published alongside these draft determinations – the DPP Determination Companion Paper<sup>4</sup>, the IM Determination Companion Paper<sup>5</sup> and the IRIS IM Determination Companion Paper.<sup>6</sup>

In general, Unison welcomes and supports the changes made to the Draft Determination and the related IM Amendments, many of which are a result of the ENA's earlier submissions. We have read and contributed to the development of the ENA submission and support its recommendations and conclusions. We reiterate the concern expressed in the ENA submission that, due to the short timeframe available to review the technical details set out in the revised Draft DPP Determination and IM Amendment Draft Determinations, there is a reasonable likelihood that errors or unforeseen circumstances will come to light during the regulatory period which will require clarification or amendment to the Determinations. We recommend that the Commission should be open to making timely changes.

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<sup>1</sup> Commerce Commission, Electricity Distribution Services Default Price-Quality Path Draft Determination 2015, 20 October 2014.

<sup>2</sup> Commerce Commission, Draft Electricity Distribution Input Methodology Amendments 2014, 20 October 2014.

<sup>3</sup> Commerce Commission, Draft Incremental Rolling Incentive Scheme Input Methodology Amendments 2014, 20 October 2014

<sup>4</sup> Commerce Commission, How we propose to implement default price-quality paths for electricity distributors from 1 April 2015, 20 October 2014.

<sup>5</sup> Commerce Commission, How we propose to implement amendments to the input methodologies for electricity distribution services: First and second type, 20 October 2014.

<sup>6</sup> Commerce Commission, How we propose to implement amendments to the input methodologies for electricity lines businesses subject to price-quality regulation: Incremental Rolling Incentive Scheme, 20 October 2014.

Unison also wishes to emphasise concerns with two aspects of the Commission's proposals:

1. *Lack of support for price restructures that focus on changing customer behaviour.* Recently the Electricity Authority has presented to an ENA Pricing and Commercial Managers forum that it would like to see more cost-reflective pricing approaches adopted by distributors. Unison supports such changes, in concept, to ensure that consumers are making efficient consumption and investment choices (e.g., in solar power), but such changes create revenue risks that are extremely difficult to manage and would result in revenue short-falls against required revenues. The Commission's proposed approach to price restructures requires EDBs to use actual volumes against restructured prices and there is to be no ability for EDBs to recover the effects of tariff-related demand-side management initiatives through the "Energy Efficiency and Demand Incentive Allowance", due to the exclusion of tariff-related initiatives.

If Unison, for example, were to introduce a residential time-of-use tariff, with meaningful differences between peak and off-peak rates, then we would have to apply the T-2 volumes available through smart-meter data against the peak and off-peak rates in calculating notional revenues. As consumers react to the price signals, by shifting a proportion of peak use to off-peak use, there is no means of recovering the revenue short-fall. Because such tariffs are designed to provide a longer-term signal and there are unlikely to be any immediate benefits, in terms of reduced investment costs, the introduction of such cost-reflective tariffs would negatively affect profitability and therefore there is a barrier to pursuing such efficiency-improving tariffs. Unison submits that the Commission's proposals therefore are unlawful when considered against the mandatory requirements of section 54Q.<sup>7</sup>

Unison submits that the Commission should permit tariff-related initiatives that result in revenue reductions to be either:

- recovered as an "Energy Efficiency and Demand Incentive Allowance" is Schedule 5A; or
- provide for the effects of structural changes to be accounted for in the restructuring provisions in clauses 8.7 to 8.11, for example, by allowing reasonable demand elasticities to be applied to relative price changes between existing tariffs and restructured tariffs.

If the Commission does not accept Unison's proposals, we request the Commission provide information on how the mandatory requirements of section 54Q are to be met in relation to tariff-related initiatives to promote energy efficiency and demand-side management.

2. *The carry-over of forecasts between DPP and CPPs through the IRIS mechanism.* As we understand it, the IRIS provisions carry-over deemed opex inefficiencies between the DPP and CPP, such that if an EDB's actual opex exceeds the Commission's DPP opex

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<sup>7</sup> Unison has included as an option TOU rates for residential and small commercial consumers for the last three years, but because of the revenue risks involved we have provided only minimal differentiation between peak and off-peak rates. There has been zero up-take by consumers and retailers as a result.

forecast this is carried over into the effective CPP opex forecasts. This would defeat the purpose of making a CPP application and imply that the DPP opex forecasts are an accurate forecast of an EDBs reasonable operating expenditure requirements, which is not the basis on which they have been established. To the extent our understanding is correct, Unison submits that the Commission should make provision for the carry-over of differences between actual opex and DPP opex forecasts to be set aside.

Thank you for considering our submission. We look forward to now receiving the final DPP determination.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Nathan Strong' with a stylized flourish at the end.

Nathan Strong  
**GENERAL MANAGER BUSINESS ASSURANCE**