

Electricity Distribution Services Default Price-Quality Path (Powerco) amendment

Reasons Paper

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Associated documents

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1. Introduction

Purpose of paper

- 1.1 This reasons paper outlines and explains our reconsideration and amendment of Powerco Limited's (Powerco) quality standards and quality incentive measures applicable to its 2015–2020 Default Price-Quality Path.

Outline

- 1.2 Chapter 2 discusses the background to identifying that amendments to Powerco's quality standards and quality incentive parameters were required and the process we took to make these amendments.
- 1.3 Chapter 3 summarises the changes to Powerco's quality standards and quality incentive parameters as a result of these amendments.

2. Background

- 2.1 On 28 November 2014, the Commission reset the default price-quality paths for 16 electricity distribution businesses, following the process set out in s 53P of the Commerce Act 1986 (the Act) and applying all relevant input methodologies.¹ The reset default price-quality path applies for the regulatory period commencing 1 April 2015 and expiring 31 March 2020.
- 2.2 As part of that reset, we used interruption data provided by electricity distributors to:
- 2.2.1 set the quality standards that will apply for the regulatory period; and
 - 2.2.2 determine the quality incentive measures used to calculate the incentives for suppliers to maintain and improve their quality of supply during the regulatory period.
- 2.3 The primary data used to calculate the SAIFI parameters was the number of customers interrupted. Following our final determination, Powerco identified that its SAIFI parameters had been calculated from an incorrect data series.²
- 2.4 In the data supplied by Powerco the number of customers interrupted was adjusted for staged interruptions. As a consequence of these adjustments, the data provided did not reflect the actual historical number of customers interrupted.
- 2.5 We used this data to calculate the SAIFI quality standards and quality incentive measures for the 2015–2020 regulatory period. The resulting quality standards and quality incentive measures are stricter than they would have been had the information reflected the actual historical SAIFI of Powerco.
- 2.6 The incorrect data relied upon by the Commission for determining the SAIFI quality standards and quality incentive measures did not reflect the actual historic SAIFI values, and was clearly unintended to be relied upon by the Commission for that purpose. Our reliance on the incorrect data consequentially led to an error in the SAIFI data contained in the default price-quality path determination (ie, the SAIFI quality standards and quality incentive measures).

¹ The default price-quality path is set out in the *Electricity Distribution Services Default Price-Quality Path Determination 2015* [2014] NZCC 33.

² SAIFI refers to the System Average Interruption Frequency Index, defined as the number of customers interrupted divided by the customer base.

- 2.7 Under clause 4.5.4 of the *Electricity Distribution Services Input Methodologies Determination 2012* [2012] NZCC 26 (IM Determination), we may reconsider a default price-quality path where there has been an error.
- 2.8 Clause 4.5.3 of the electricity distribution businesses input methodologies defines an “error” for which reconsideration is allowed as follows:
- 4.5.3 Error
- Error means incorrect data-
- (a) discovered in a **DPP determination** and clearly unintended by the **Commission** to be included in it; or
 - (b) relied upon by the **Commission** in making or amending a **DPP determination** and clearly unintended by the **Commission** to be relied upon in making or amending it,
- determined by the **Commission** to have an impact on the price path by an amount at least equivalent to 1% of the aggregated **allowable notional revenue** for the **disclosure years** of the **DPP** affected by the incorrect data.
- 2.9 Before we commence a reconsideration of the quality standards applicable to Powerco, we must be satisfied that the cost impact of the error will, in aggregate, exceed 1% of the allowable notional revenue provided for under the price path.
- 2.10 We therefore sought additional information from Powerco on the expected cost impact of complying with the quality standards as set out in the default price-quality path determination.
- 2.11 Powerco advised that achieving a reduction by 10% in SAIFI would require \$5–10 million of additional operating expenditure and \$10–20 million of additional capital expenditure per disclosure year of the regulatory period.³
- 2.12 Based on the estimated range of additional operating and capital expenditure required, as provided by Powerco, we estimated an impact of between 2.7% and 5.4% in the allowable notional revenue for the regulatory period to cover increased cost.
- 2.13 Following our assessment of the information provided, we determined that the error would have an impact on the price path of over 1% of the aggregated allowable

³ Letter from Richard Fletcher (General Manager Regulation and Government Relations, Powerco Limited) to John McLaren (Manager, Regulation Branch, Commerce Commission) responding to request for further information on the understatement of Powerco’s SAIFI target in the 2015-2020 default price-quality path determination (18 March 2015).

notional revenue for Powerco for the regulatory period, and commenced reconsideration of the default price-quality path applicable to Powerco.

- 2.14 Reconsideration of the price-quality path involves considering amendments to an existing s 52P determination in accordance with s 52Q of the Act. In considering what, if any, material amendments are appropriate, we must consult with interested parties.⁴
- 2.15 In reconsidering the default price-quality path because of an error, we may not amend the price-quality path more than is reasonably necessary to mitigate the effect of the error.⁵

4.5.5 Amending price-quality path after reconsideration

- (1) Where, after reconsidering a **DPP**, the **Commission** determines that the **DPP** should be amended, the **Commission** may amend either or both of the price path or the quality standards specified in the **DPP determination**, subject to the rest of this clause.
- (2) The **Commission** will not amend the-
- (a) price path more than is reasonably necessary to mitigate the effect of-
- ...
- (iii) **error**; ...
- on **price**; or
- (b) quality standards more than are reasonably necessary to mitigate the effect of-
- ...
- (iii) **error**; ...
- on quality.

- 2.16 On 10 April 2015, we consulted on an amendment to Powerco's default price-quality path under s 52Q of the Act. In our consultation paper, we proposed:

2.16.1 Amending Powerco's quality standards and quality incentive measures; and

⁴ Commerce Act 1986, s 52Q(1).

⁵ *Electricity Distribution Services Input Methodologies Determination 2012* [2012] NZCC 26, clause 4.5.5.

- 2.16.2 That the amendments would have effect from the commencement of the default price-quality path regulatory period (1 April 2015).
- 2.17 In response to the consultation paper on this amendment, we did not receive any submissions objecting to our reasoning for the approach taken for the amendment.⁶
- 2.18 We did not assess in detail Powerco's estimate of additional expenditure required to comply with the stricter SAIFI standards set out in the Determination. However, we consider that it is reasonable that extra expenditure would be required in order to meet stricter compliance requirements, and therefore would have an impact on the allowable notional revenue for the regulatory period.

⁶ We received one submission from Wellington Electricity. Their submission supported the approach taken. Wellington Electricity "Submission on Consultation on Reconsideration of Powerco Limited's quality standards and quality incentive measures" 1 May 2015.

3. Amendments to the default price-quality path determination

Purpose of this chapter

- 3.1 This chapter outlines the amendments that are applicable to Powerco's quality standards and incentive scheme measures.

Amendments to quality standards and incentive measures

- 3.2 Having determined that there has been an error, and having reconsidered the default price-quality path applicable to Powerco, we have amended the default price-quality path determination to mitigate the effects of the error.
- 3.3 We consider that, in light of the nature of the error, the appropriate approach is to amend Powerco's quality standards and quality incentive measures. These amendments apply to:
- 3.3.1 the SAIFI limit and SAIFI boundary value, as set out in Schedule 4A; and
 - 3.3.2 the SAIFI cap, SAIFI collar, and SAIFI target, as set out in Schedule 5B of the default price-quality path determination.⁷
- 3.4 We requested Powerco to resubmit their reliability data without any adjustment made to the number of customers interrupted for any staged interruption. This data is used to recalculate their quality standards and incentive parameters. The amendments to the relevant measures contained in the default price-quality path determination are set out in Table 3.1.

Table 3.1: Powerco's SAIFI parameters for the 2015-2020 regulatory period

SAIFI parameter	Determination	Amendment
Unplanned boundary value	0.059	0.064
Target	2.1068	2.3406
Collar	1.9404	2.1615
Cap	2.2731	2.5197
Limit	2.273	2.520

⁷ *Electricity Distribution Services Default Price-Quality Path Determination 2015 [2014] NZCC 33.*

- 3.5 These amended quality standards and quality incentive measures apply from the commencement of the regulatory period, ie, from 1 April 2015. We consider this is appropriate and consistent with the purposes of the Act and the reconsideration input methodologies.
- 3.6 Our decision today will come into effect four months following a summary of the decision in the *Gazette*, in accordance with clause 53M(7) of the Act. Powerco may waive this notice requirement.