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John McLaren
Commerce Commission
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ENA Cross Submission on Responses to DPP Consultation Papers

Dear John,

The Electricity Networks Association (ENA) welcomes this opportunity to make a cross submission on the responses received to the recent DPP consultations (the DPP Main Policy Paper and the DPP Low Cost Forecasting Paper). The focus of this cross submission is the submissions made by MEUG on the DPP Papers.

Quality incentive scheme

In its submission, *Proposed DPP for EDB from 1 April 2015*, MEUG suggests that with respect to the proposed quality incentive scheme, penalties should be paid for reliability performance which falls between the target and the collar, but that the cap is set equal to the target, and no reward is paid for performance above the cap.

This suggestion fails to recognise the normal variation that will occur around the target (which is to be based on historical averages), and thus businesses will report above and below the target over time, where there is no deterioration or improvement in underlying quality performance. Accordingly, if MEUG's suggestion is implemented, the penalty payments (in bad years) with no offsetting rewards (in good years) would mean that EDBs could not expect to earn normal returns, which would be inconsistent with the Part 4 Purpose Statement. We therefore do not support MEUG's proposal for an asymmetrical quality incentive scheme.

CPP applications

We also do not agree with MEUG that adding more complexity to DPP undermines incentives on EDBs to seek CPPs. In our view the DPP should apply to most non-exempt EDBs, most of the time. Thus the DPP should accommodate business-as-usual circumstances, while providing incentives for innovation and improvement which ultimately provide lower prices and/or improved quality outcomes consistent with consumer demands. A number of the proposed refinements to the DPP are attempting to improve the incentive properties of this form of regulation.

ENA members consider that CPP applications are not a requisite for meeting the objectives of Part 4, and suggest that the costs associated with a CPP application (some of which are shared between consumers and suppliers) can be better diverted to providing electricity lines services. The ENA considers that the CPP option should not be seen as a DPP error correction mechanism.

We also note that one of the reasons that CPPs have not been applied for to date, is that the DPP price path has only just bedded down. Hence FY14 is the first year that DPP price paths reflect the Input Methodologies, and EDBs are unable to apply for a CPP in the FY15 year. In any event, the pending DPP reset will provide the counterfactual against which the CPP alternative needs to be assessed.

Energy efficiency and demand side management incentive (D factor)

MEUG suggests that innovations which support energy efficiency and demand side management initiatives should only be rewarded for the first EDB which implements the innovation. This suggestion is inconsistent with section 54Q, which places the onus on the Commission to ensure that Part 4 regulation does not disincentivise investments in energy efficiency, demand side management and reduction of losses. The proposed D factor provides a mechanism for compensation whereby initiatives which are consistent with the objectives of section 54Q, result in reduced revenue, and hence compromise the ability for EDBs to achieve normal returns.

Pass through costs

MEUG also submits that EDBs should be exposed to pass-through costs. We note that this topic was debated at the time the Input Methodologies were determined, and it was agreed by the Commission at that time that EDBs are unable to influence pass-through costs to any great extent and should not be exposed to changes in them over time. EDBs cannot, as suggested by MEUG, exert sufficient influence over other regulatory bodies or local authorities in order to reduce these costs for electricity consumers. We note that these charges are subject to significant public scrutiny through other public processes, and EDBs are actively represented in the associated consultations.¹

We trust this cross-submission is useful to the Commission in finalising its DPP Determination for EDBs from 1 April 2015.

Yours sincerely



Alan Jenkins
Chief Executive
Electricity Networks Association

¹ Refer for example: ENA Submission on Commerce Commission's Part 4 Funding Review, 19 July 2013

This letter is supported by the following EDBs:

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Horizon Energy Distribution Ltd
Nelson Electricity Ltd
Network Tasman Ltd
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