



Submission to the Commerce Commission

on

Proposed Compliance Requirements for the
2015–2020 Default Price-Quality Paths
for Electricity Distributors

29 August 2014

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Introduction

1. We welcome the opportunity to submit on the Commerce Commission's paper *Proposed Compliance Requirements for the 2015-2020 Default Price-Quality Paths for Electricity Distributors*.
2. This submission's focus is on the.
 - Annual compliance statement— we do not support the proposed assurance requirements.
 - Treatment of transmission charges— we do not support:
 - the proposed compliance whereby the transmission balance at the end of the regulatory period must be less than or equal to zero; nor
 - that a negative balance (or under recovered charges) cannot be carried over into the next regulatory period.
 - Compliance with the quality standards— we do not support the commission's proposal to determine an electricity distribution business (EDB) performance that is above the SAIDI and SAIFI targets as non-compliance.
 - Price restructures—we request that the commission provide more information about its proposal, that it be notified 30 days prior to the new prices taking effect, where an EDB proposes to restructure its prices in such a way that it will have to use estimated quantities.

In all other matters our views are expressed by the Electricity Networks Association's (ENA) and PricewaterhouseCooper's (PwC) submissions.

3. This submission does not contain confidential information.

Annual compliance statement

We support the provision of an annual compliance statement

4. We support the comprehensive release of information about our reliability performance in the format of an annual compliance statement as proposed by the commission. We also support the proposed timeframe of 50 working days from the end of the assessment period (i.e., mid-June each year).
5. While we do not object in principle to providing the commission with a digital copy of our price-quality schedules with our compliance statement,¹ we ask the commission to.
 - (i) Confirm what is meant by 'price-quality schedules'—we have assumed this to mean the detailed workings in Excel, or equivalent format.
 - (ii) Inform us why the information is required—as this information has not been asked for by the commission in the past, unless a EDBs' performance was being investigated.

¹ Commerce Commission, *Proposed Compliance Requirements for the 2015-2020 Default Price-Quality Paths for Electricity Distributors*, 18 July 2014, paragraph 2.12.

- (iii) Advise in what format the schedule would be required—we would rather that the format is not prescribed as this could result in additional and unnecessary work needing to be done by EDBs.

We do not support the proposed assurance requirements

6. We do not support the proposed assurance requirements whereby the auditor opinion is required to state whether ‘proper records have been kept to enable the complete and accurate compilation of the compliance statement’².

We received a qualified audit opinion under information disclosure

7. Our audit opinion under the information disclosure requirements³ (IDD) for the years ended 31 March 2013 and 2014 have been qualified. We are likely to continue to have a qualified opinion in the near future. This is because until such time that we have embedded a fully automated system, our auditors are unable to state that the records we have kept are ‘complete and accurate’.
8. We are of the view that this circumstance (by which we will continue to receive a qualified opinion unless we embed a full automated system) is not in the long term best interests of our consumers.
9. Further, we question whether a qualified opinion weakens the implementation of an incentive scheme, to which we have been strong supporters of.

Why it is we receive a qualified audit opinion

10. The IDD require that the disclosures be published with an assurance report by an independent auditor that, amongst other things, states:
 - the information has been properly extracted from the EDBs records ; and
 - proper records to enable the complete and accurate compilation of the information have been kept by the EDB .
11. Both our IDD 2013 and 2014 were qualified as it was not possible for our auditors to verify the ‘completeness and accuracy’ of the recorded interruptions on our network (i.e., SAIDI and SAIFI). In its *Independent Auditor’s Report* PwC stated:

‘There are no practical procedures that we could adopt to confirm independently that all the faults and ICP data was properly recorded ... we are unable to form an opinion as to the completeness and accuracy of the data the forms the basis of the compilation of Schedules 10(i) to 10(iv).’
12. The difficulty for the auditors is that due to the manual nature of the collection of our interruption data the auditor cannot be certain that they have a complete and accurate record of all the interruptions.

² Supra n1, paragraph 2.15.

³ Commerce Commission, *Electricity Distribution Information Disclosure Determination 2012*, Decision No. NZCC 22, 1 October 2012, clause 2.8.1(1)(b)(vii).

13. For example, the auditors are able to state that we have kept records for 100 interruptions and that we have correctly added the 100 records up to equal 10 SAIDI minutes. However, the auditor cannot verify that there were not 101 interruptions for which records should have kept and that that interruption shouldn't have add up to 10.5 SAIDI minutes.
14. Our board is most perplexed by having received qualified audits. The board considers a qualified audit opinion to be a very serious matter.
15. We are not alone in having received a qualified opinion. The matter of qualified audits was an issue of contention during the consultation of the IDD. Auditors and EDBs alike submitted to the commission that the expense of automated systems for the recoding of interruptions made it prohibitive for many smaller EDBs to keep records that would support an unqualified audit opinion.
16. Unfortunately it seems that the commission failed to get a good understanding of the issue and proceeded to publish the IDD with the current wording for the assurance report and is now extending that wording to the audit opinion to the DPP.
17. The commission has not provided reasoning behind the need to change the audit opinion and in absence of a sound reason we urge the commission to consider the real impact on EDBs before changing the wording used in the audit opinion.
18. Accordingly, we recommend that the commission keep the current wording of the audit opinion. As the commission receives sufficient assurance through: director certification; and an audit opinion stating that the annual compliance statement has been prepared, in all material respects, in accordance with the determination, to perform its duties.

Treatment of transmission charges

19. We support the following proposed changes to compliance with the price path.
 - The new approach to treat a number of Transpower related transmission charges, including avoided transmission charges, separately from other recoverable costs.⁴
 - The proposed method of implementation whereby the weighted average price–cap applies only to the distribution components of prices.⁵
 - The exclusion of the transmission component of prices when calculating our allowable notional and notional revenues.⁶
 - That transmission prices will be subject to a separate limit within the regulatory period.⁷
 - That transmission charges include indirect transmission charges and the listed transmission cost terms.⁸

⁴ Supra n1, paragraph 3.6.

⁵ Supra n1, paragraph 3.7.

⁶ Supra n1, paragraph 3.9.

⁷ Supra n1, paragraphs 3.10.

- The proposed calculation of transmission charges in the first and subsequent years.⁹
20. We do not however, support the proposed compliance whereby the transmission balance at the end of the regulatory period must be less than or equal to zero. Nor do we support that a negative balance (or under recovered charges) not be carried over into the next regulatory period.¹⁰
21. We accept that, all other things being equal, we should not over recover more than the transmission charges that were incurred in any given year. However, we are of the view that this need not be a matter of compliance rather the issue could be more appropriately dealt with via a wash-up mechanism at the end of each year, including the final year.
22. We are of the view that a wash-up mechanism would:
- (i) be least cost to implement compared to compliance and enforcement action
 - (ii) be capable of removing any advantage that an EDB might gain from having over recovered transmission charges in any given year
 - (iii) better deal with any unforeseeable changes in transmission charges and forecast quantities
 - (iv) provide incentives to invest in demand management and transmission alternatives by which transmission charges might be reduced.
23. We have assumed that the commission is proposing an asymmetric treatment of an over recovery of transmission charges. We are of the view that a symmetric treatment of over and under recovery of transmission charges would be more appropriate.

Compliance with the quality standards

24. As previously submitted by us, we do not support the commission's proposal to determine an EDB's performance that exceeds the SAIDI and SAIFI targets as non-compliance.^{11 12} We are of the view that the proposed compliance with the quality standards is a significant step backwards from the status quo and dulls the incentives under the proposed revenue-linked quality scheme to the extent to make the scheme pointless.
25. Further, we disagree with the commission that by proposing to only take enforcement action in exceptional circumstances (i.e., for performance worse than the quality targets, but still below the SAIDI or SAIFI cap) it has provided EDBs with certainty about when it will exercise its discretion to take enforcement action for non-compliance of the quality standards. We are of the view that certainty can only be provided where performance that exceeds the cap constitutes non-compliance.

⁸ Supra n1, paragraph 3.46.

⁹ Supra n1, paragraphs 3.48 and 3.49.

¹⁰ Supra n1, paragraph 3.50.

¹¹ Alpine Energy, *Proposed Default Price-quality for Electricity Distributors from 1 April 2015*, 15 August 2014, paragraphs 2.1 to 2.9.

¹² Supra n1, paragraph 4.5.

26. Certainty can be further supported by the release of enforcement guidelines outlining the process that the commission will take when using its discretion to take enforcement action for non-compliance.¹³

Price restructures

27. We support the commission's proposed compliance obligations for EDBs that restructure prices during an assessment period. In particular we welcome updated rules for pricing restructuring and the release of guidance for the use of historical data.
28. We request that the commission provide more information about its proposal to be notified 30 days prior to the new prices taking effect where an EDB proposes to restructure its prices in such a way that it will have to use estimated quantities.¹⁴
29. The commission is silent on:
- the process that it will take following the receipt of the required information
 - what it will do should it determine that an EDB did not take care in making its quality estimate
 - what it will do should it determine that the estimate and forecast assumptions were unreasonable.¹⁵
30. This lack of information makes it difficult for us to say whether, or not, we support the introduction of such an obligation under the DPP.

Closing Remarks

31. We hope that our submission is helpful to the commission in making its determination of the compliance requirements under the DPP effective from 1 April 2015.
32. We are happy to discuss our views with you further if you would find it useful to do so. The primary contact for this submission is:

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¹³ Supra n11, paragraphs 2.17 to 2.21.

¹⁴ Supra n1, paragraph 6.14.

¹⁵ Supra n1, paragraph 6.15.