MAJOR ELECTRICITY USERS' GROUP

11 July 2014

Paolo Ryan
Commerce Commission

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

Dear Paolo

Transpower individual price-quality path cross-submission

1. This is a cross-submission by the Major Electricity Users' Group (MEUG) on the submissions of other parties in relation to the Commerce Commission paper[1] "Setting Transpower's individual price-quality path for 2015-2020, Reasons for draft decision", ie the "the draft IPP reasons paper".

2. The draft IPP reasons paper was dated 16th May 2014. Nine parties including MEUG made submissions that closed 27th June. This cross-submission comments on key aspects of those other submissions.

3. Members of MEUG have been consulted in the preparation of this submission. This submission is not confidential.

4. Nothing in the submissions of other parties has substantially altered the comments in MEUG's original submission. Referring to the other submissions MEUG:

    a) Agrees with the submission of Contact Energy that:

    > "The Commission impose revised targets for the customer focused quality measures and incentive regime that has $10 million at risk each year for Transpower."

    $10m per year is approximately 1% of Transpower's regulated revenue and we agree this is an appropriate level for RCP2 being the first regulatory period that revenue-linked performance incentives will be used.

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[1] Document URL http://www.comcom.govt.nz/dmsdocument/11897 found at http://www.comcom.govt.nz/regulated-industries/electricity/electricity-transmission/transpower-individual-price-quality-regulation/transpowers-price-quality-path-from-2015-to-2020/. All submissions are found at this web page.

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b) Agrees with Pacific Aluminium's proposal to unwind the HVAC EV account within at least the next 2 pricing years (paragraph 16):

> "Our suggestion is that these balances are cleared at least within the next two pricing years so that they are gone by the start of the 2017/18 pricing year; which we consider to be the earliest a significantly revised methodology could take effect. Our preference would be to see them cleared sooner rather than later as, while these balances remain outstanding, transmission customers are effectively extending credit at a time when they are already burdened with very high increases in transmission costs."

The Pacific Aluminium submission also puts the value of the HVAC EV account into perspective; being \$25.6m at June 2013. As an approximation the share of that credit owed to MEUG members is between \$2.5m and \$3m. This is a material value of working capital that is not earning a return commensurate for the competitive industries MEUG members operate in. Similarly all other consumers are being short changed by delays in receipt of their working capital on the claim it's more beneficial to have smoothed charges over time. Has Transpower asked any end consumers which option they would prefer? MEUG, representing consumers using approximately 25% of gross annual demand, say we want that cash now.

The submissions of Contact Energy and Meridian Energy indicating acceptance of smoothing the EV accounts and clearing legacy 2011 EV account balances through to end RCP2 we take as referring to their liability for the HVDC EV account rather than speaking on behalf of customers owed HVAC EV credits.

These comments supplement the recommendations in paragraphs 11 c) and d) of MEUG's 27th June 2014 submission.

c) Agrees with the submissions of Carter Holt Harvey:

   i) OM8 - Extent that Transpower meets planned outage start times for critical circuits and equipment: Should also include planned finish times.

   ii) OM9 - Extent that Transpower provides its reports to affected parties on unplanned interruptions within 15 workings days of the interruption. Transpower will report any exceptions on the number of times it did not meet the timeframe: The measure should include a general specification of what the report should contain to ensure root causes are identified and remediation or mitigation actions to avoid repeat events are in place.

   iii) "A measure of stakeholder satisfaction and engagement" could be included in the Grid Output measures or as a Business improvement initiative.

These comments supplement the recommendation in paragraph 16 of MEUG's 27th June 2014 submission.

d) In relation to the proposed business improvement initiatives MEUG:

   i) Agrees with the submission by Meridian Energy (bullet point 2) reinforcing the proposal for development of a revenue linked metric for RCP3 for market impact of outages suggested as a business improvement initiative in RCP2.

   ii) Agrees with the list of measures and processes in paragraph 2 of the submission of Carter Holt Harvey to be considered by Transpower in development of Business Improvement Initiatives ahead of tabling those with the Commission by 1st July 2015.

These comments supplement the recommendation in paragraph 18 of MEUG's 27th June 2014 submission.

e) Notes that MEUG is separately submitting on the asset health grid output measures proposed by Transpower.

f) Notes that opposition by Counties Power (section 8) in relation to the case for additional capex at Bombay substation unless that cost is classified as interconnection assets is a matter for Counties Power and Transpower to discuss within the Transmission Pricing Methodology set by the Electricity Authority rather than the IPP reset process.

g) Agrees with the submission of EnerNOC (page 2):

> "The EA, as the market regulator, is in the best position to provide a framework for the efficient and coordinated use of DR and to mitigate the potentially negative impact of the Transpower proposal. We therefore support the EA's suggestion that the Commerce Commission approve the proposed programme funding, subject to the mitigating conditions set out in the EA's letter."

That may or may not include transferring the Demand Response Management System platform sourced from PJM by the System Operator to the Grid Owner as EnerNOC suggest (page 1). The Electricity Authority should consider but need not implement that option.

As a footnote MEUG notes concern with the submission of Counties Power (section 6, page 4) that "we can't see that there would be any opportunity for demand side management". MEUG suggests this comment reinforces our view that we need to develop a framework where other parties, not just distributors and Transpower, are providers of network alternatives such as demand side response.

These comments supplement the recommendations in paragraph 13 of MEUG's 27th June 2014 submission.

h) The draft IPP reasons paper proposed treatment of catastrophic risk follows on from decisions for catastrophic risk with the Orion CPP. MEUG did not support the Commission's solution for an ex ante re-opener of remediation operating and maintenance costs for Orion. We remain concerned that that solution has undermined the incentives and effectiveness of the primarily ex ante CPI-X regime design for DPP, CPP and IPP. That story is continuing to be played out with Transpower chipping away given the door is open on how to define the ex ante re-opener in the case of catastrophic events. For example Transpower want both reinstatement of higher proposed insurance costs[2] and a specified relatively low threshold to trigger catastrophic events[3].

In competitive markets businesses that lose production capability and therefore lose sales due to a catastrophic event have strong incentives to quickly restore production to resume income. To manage that risk they decide what pre and post event strategies to have in place, eg level of insurance, spares to carry, resilience built into production equipment and processes. It would be rare for businesses to have insurance for every potential risk or full cover for catastrophic risks. No competitive business can immediately following a catastrophic event simply add onto prices the costs they incur to bring production back to pre-catastrophic event levels. Yet this is where we have now appeared to have landed for regulated electricity monopolies.

[2] Transpower submission, section 5.6, p36, 27th June 2014
[3] Ibid, a cost threshold of $10m is proposed, refer p56

MEUG acknowledges the Commission has decided ex ante cost recovery in the event of catastrophic events should be part of the IPP reset. To mitigate the risk line monopolies will use this as an opportunity to either their having to make decisions on the best mix of pre and post event risk management strategies and therefore lapse into a cost plus mentality; MEUG suggests the threshold for defining a catastrophic event should be very high and the Commission resist claims for ever increasing levels of insurance. Therefore MEUG recommends the Commission should not agree to restore the higher level of insurance requested in the submission by Transpower. And MEUG recommends the threshold defining when a catastrophic event is triggered should be greater than the level in the draft IPP reasons paper.

Yours sincerely

Ralph Matthes
Executive Director