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Default Price-Quality Paths for Electricity Distribution Businesses from 1 April 2020

Thank you for the opportunity to respond to this consultation. The consultation paper is comprehensive and it is evident that the Commission has given considerable consideration on how to improve the DPP process. Our submission does not comment on all the aspects of the consultation but rather focusses on areas where we consider there are most significant opportunities for consumer benefits such as quality standards and incentives.

We support a review of the effectiveness of the current regulatory regime and how better outcomes for consumers can be achieved. While there are regional variations, in aggregate the network component of electricity prices has been steadily rising in recent years while the quality of the network service in parts is declining. Mercury has consistently supported greater oversight and governance of distributor activity including procurement choices and asset management decisions. We raised this in our submission on the 2018 Electricity Pricing Review (EPR) and we would encourage the Commerce Commission to consider the specific examples further.¹ We support more transparency, scrutiny, and accountability of distribution investment and operation decisions. Consideration of the wider context including the EPR, integrating emerging technologies, and the current state of the networks and behaviour are key to improving a fit-for-purpose DPP regime.

It is also our view that quality standards and incentives cannot be reviewed in isolation but wider consideration is necessary which covers asset management, monitoring and enforcement, disclosure, and governance. For example, there needs to be good compliance monitoring of expected quality and transparency in asset management plans around investments. We note the Commission has already done some work in seeking to improve these areas.²

Quality of service and incentives

We support ways to increase transparency, reliability and improved robustness including the options for refining SAIDI and SAIFI and strengthening the incentives in the quality incentive scheme. We have set out our comments on matters the Commission is considering in Appendix A. These are preliminary comments and we would like to engage further with the Commission in its next consultation.

We also consider a much broader review into the regime is required to establish a problem definition and fit-for-purpose framework. The regulatory regime would benefit from looking at evidence of efficiency, productivity and reliability improvements. We compare the Transpower model for major capex which provides visibility over the investment need, the long and short-listed options to meet the need, and a well-defined net benefits test that must be passed for major capex decisions.

¹ See pages 41 – 50 of Mercury's submission.

² Commerce Commission Open letter on AMP of 9 November 2017 and Open letter of 9 May 2018 on investment in emerging technologies.

The following table indicates diminishing distributor service quality since 2013, despite increases in capex:

Table 4: Average SAIDI and SAIFI for EDBs from 2013 to 2017

	2013	2014	2015	2016	2017
Outages - SAIDI (mins)	145	255	338	192	299
Outages - SAIFI	1.78	2.08	2.23	2.03	2.15

Source: Commerce Commission/

Looking forward, there is a real risk that substantially higher capex may be required to maintain current quality standards meaning further price increases for consumers. We also note that climate change will affect weather patterns with subsequent challenges for efficient and reliable network investments. In addition, distributors are increasingly applying for CPP's which calls into question the effectiveness of the DPP regime.

We note the work of the ENA Quality of Service Working Group (QSWG). While this appears to be a positive initiative, neither ERANZ nor any retailers are direct members of the group. Retailers, who have the direct relationship with consumers, can provide valuable and consumer-centric views. The Commission is seeking feedback on the QSWG report which makes several recommendations. This is a lengthy report and we have not been involved in the to the development of which makes commenting difficult in this timeframe. For the recommendations made, we would like opportunity for further comments at the next round of consultation. We attach in Appendix B our preliminary thoughts.

Mercury notes SAIDI and SAIFI do not cover the low voltage (LV) network where 40% of interruptions occur. We support power quality forming part of the quality standard with a requirement for distributors to disclose performance at the LV level. Not maintaining voltage within safe ranges can have serious implications for the operation of electrical equipment by reducing its performance or potentially even causing failure. This is a concern for vulnerable consumers such as those who are medically dependent. We agree with the QSWG that presently reliability measures materially underreport the actual customer experience and is inconsistent with regulatory practice in the UK and Australia.

We note the Commission's comments on the UoSAs and we agree there are significant variations in these agreements. We support a standardised and consistent approach to quality standards and service across distributors as a key regulatory gap to address. We also note the recent Court of Appeal decision on default terms around quality standards which is raises questions as to regulatory jurisdiction.³

The evidence suggests the current incentive regime may not be encouraging efficient investment. During DPP2, the quality standards have been contravened eleven times with three breach investigations occurring last year.⁴ Timing to address this issue is crucial as there will be a time lag between any improvement and the flow on benefits to consumers. Any statutory impediments to improve the regime for future re-sets should be addressed – for example enabling benchmarking under the Commerce Act.⁵ The lack of focus on core investments is a concern. We raised this in our submission to the EPR.⁶

³ Vector and Others v Electricity Authority [2018] NZCA 543.

⁴ In November 2017, the Commerce Commission informed us that they were reviewing quality standard breaches by Vector, Aurora, and Alpine Energy.

⁵ "Benchmarking enables us to compare the performance of DNSPs relative to each other and over time. This is important in an industry where the service providers are natural monopolies because they may not face the same pressures to operate efficiently as firms in a competitive market. By reporting comparative performance, we create an incentive for DNSPs to learn from each other and improve their performance and provide meaningful information to consumers and other stakeholders for better engagement in our regulatory processes. There has been a long history of benchmarking by international regulators" https://www.aer.gov.au/networks-pipelines/guidelines-schemes-models-reviews/annual-benchmarking-report-2016_ref_page_5.

⁶ See Mercury submission on the EPR, Part 4.



Mercury supports improvements to the price/quality framework to ensure reliability and efficient investments in which distributors are properly incentivised to re-focus on core investments. We would like to continue to engage with the Commission on quality service and incentives and further consultations.

If you have any queries, please contact Rebekah McCrae on 0220702126 or 093088237 or at rebekah.mccrae@mercury.co.nz

Yours sincerely



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Appendix A: QUALITY STANDARDS AND INCENTIVES

Commerce Commission Considerations	Preliminary Comments
Quality standards relating to reliability	
Whether planned interruptions should be assigned a lower weighting or be treated as a separate quality standard	Our initial view is that there could be merit in investigating further treating planned interruptions as a separate quality standard. However, there would need to be consideration of the fact that notified 'planned' outages are still disruptive if they occur for longer than anticipated periods as advised to consumers.
Whether the one standard deviation buffer between the SAIDI and SAIFI limits and the SAIDI and SAIFI historical average should change	No comment at this time but may comment at next round of consultation
Appropriateness of 10-year reference period and removing most extreme years from the reference dataset	We support extending the current period to 15 years from 2003/04 to 2018/19 to better assess performance. We prefer a downward adjustment for those years where a distributor contravened the reliability standards for the last reset. We don't support removing the most extreme years from the reference period. This would compromise the accuracy of performance.
Alternative approaches to determining a quality standard contravention	No comment at this time but may comment at next round of consultation
Additional reporting requirements for DPP3 when an EDB contravenes its quality standard	<p>We support this given it would improve transparency around the state of networks and may prevent performance worsening. We agree with including:</p> <ul style="list-style-type: none"> - Details of the interruptions during the applicable period; - Any existing independent reviews of the state of its network or operational practices; - Investigations it has made into the major event days or other significant interruptions; - Assessment of failure and trigger events; - Analysis and trends in asset condition; - Analysis of the sufficiency of replacement and renewal activity; and - Analysis of its approach to vegetation management
Quality Incentive Scheme	
Views on the value of the revenue-linked incentive scheme for SAIDI and SAIFI	The incentive scheme should be improved to encourage better investment decisions in the interests of consumers. Currently, we note concerns around asset infrastructure, breaches of quality standards, lack of focus by distributors on core investments and declining quality in some network regions.
Reflect consumer preferences	Retailers can provide valuable input into consumer preferences e.g. via the QSWG
Raising the total revenue at risk from 1% to up to 5%	No comment at this time but may comment at next round of consultation
Widening the SAIDI and SAIFI cap and collar band from one standard deviation to up to two standard deviations from the historical average	No view at this stage
Option of explicitly setting the incentive rate, for example, with reference to the value of lost load (VoLL)	No comment at this time but may comment at next round of consultation
Whether to include notifications of planned interruptions and new connection measures within the quality incentive scheme	We agree with the Commission that planned interruptions should be included in the incentive scheme given they cause inconvenience to consumers. We also support new connections being included. Both these measures should also be measures in the quality standard used for compliance purposes



Normalisation	
Whether to continue using the 23 rd highest daily unplanned SAIDI and SAIFI, assuming a 10-year reference period, for boundary values	
Identifying an unplanned major event day based on a rolling 24-hour period. Practicality of aggregating multi-day events attributable to extreme weather events and disasters	We don't have a view on a major event being identified in either a calendar day or a 24-hour period but we do not support allowing aggregation of multiple-day events which would create confusion and inconsistency around what is a separate event or part of the same
What actions should be taken when a major event day is triggered.	No comment at this time but may comment at next round of consultation
Other measures of quality beyond reliability	
Providing high quality power supply	Support
Time it takes to respond to a power cut	Support
Time taken to answer a telephone	Support
Providing information on reasons for and the likely duration and extent of a power cut	Support. The expected duration of a power cut is important to consumers to manage their expectations and enable them to make any necessary plans to cope with the outage. The April 2018 storms in Auckland are an example where consumers were left for days without electricity but did not know when power was going to be restored causing them additional costs and inconvenience – which was not compensated under any agreements due to act of God exclusions.
Processing applications for new connections	Support (see cover letter and Appendix B)
Providing sufficient notice of shutdowns	Support
Live lines policy	We support the option of not making any allowance, as where a distributor commits to practices which take a more risk-averse approach than is required by good industry practice, the distributor and not the customer should bear the impact.
Material produced by the ENA QSWG	See Appendix B



Appendix B: ENA QUALITY OF SERVICE WORKING GROUP

	QSWG Recommendation	Preliminary Comments
1	Disaggregate SAIDI and SAIFI by network category and region for annual disclosure reporting	This seems sensible and would enable worst-served customers to be prioritised
2	Modify the AMP disclosure requirements to include information about the worst-served customers on a network	Agree
3	Modify the AMP disclosure requirement to include information about LV network	Agree (refer cover letter). However, we note the comments around access to data. This is something that the ERANZ Data Working Group (DWG) have been working through with distributors. It has now been settled that distributors can contract for voltage data directly from Metering Equipment Providers (retailers do not hold this data). Industry are now considering access to consumption data and what distributors require to manage the network. This is a work in progress with the DWG.
4	Discontinue the substitution of the SAIDI or SAIFI boundary value on MEDs and instead substitute with the average daily SAIDI or SAIFI	No comment at this time but may comment at next round of consultation
5	Refine the current MED definition by allowing MEDs to be identified on a rolling 24-hour period, rather than only within a calendar day	See Appendix A
6	EDBs can apply to the Commission to adjust their outage reference datasets to be used for the 2020 DPP, to reflect the impact of changes in their operating environments which have occurred during the current regulatory period	Disagree. Would create risk of asymmetric information bias
7	Ensure there are appropriate mechanisms in place, so quality standards can be reset if the operating environment of an EDB changes to the extent that it was a material, unavoidable, impact on reliability performance	Agree
8	Separate planned from unplanned outages for the DPP quality standards	We agree in principle, but there would need to be consideration of the fact that notified 'planned' outages are still disruptive if they occur for longer than anticipated periods. Removing any scrutiny would result in a potential for lessening performance
9	Remove planned outages from the financial incentive scheme	Disagree
10	Unplanned outage targets are linked to historical performance, but planned outage targets reflect expected performance	No comment at this time but may comment at next round of consultation
11	Retain annual unplanned outage compliance standards and assess planned outage compliance at the end of the regulatory period	No comment at this time but may comment at next round of consultation
12	Consider whether a GSL scheme forms part of the Part 4 regulation of quality and how it could be funded	Would support subject to appropriate design and funding
13	Introduce a measure of average time taken for an EDB to quote new connection application	Agree
14	Introduce a measure of the proportion of planned outages notified in advance	Agree
15	Modify the AMP disclosure requirements to include information about customer service performance	Agree
16	1% MAR revenue at risk is allocated between	No comment at this time but may comment at next round



	unplanned SAIDI, unplanned SAIFI, and the two customer service measures	of consultation
17	Enforcement guidelines are published setting out the Commission's expectations for performance against the quality standards and the enforcement process that will be followed after a breach	Agree
18	Update Information Disclosure requirements for quality	Agree

