Submission to the Commerce Commission

on

Proposed Default Price-Quality Paths for Electricity Distributors from 1 April 2015

15 August 2014

---

1. Introduction

1.1 Alpine Energy Limited welcomes the opportunity to submit on the Commerce Commission's *Proposed Default Price-Quality Paths for Electricity Distributors from 1 April 2015* (the proposal). Our submission's focus is on key points of the proposed quality services incentive scheme to apply to electricity distribution businesses (EDBs) under the default price-quality path from 1 April 2015 (DPP reset). In all other maters our views are expressed by the PricewaterhouseCoppers and Electricity Networks Association's submissions.

1.2 No part of our submission is confidential.

2. We do not support the proposed incentive scheme

2.1 In our earlier submissions on the DPP reset we have supported the introduction of a quality incentive scheme. While we continue to support the principle of an incentive scheme we do not support the current scheme as proposed by the commission.

Exceeding the target will be determined as non-compliance

2.2 We do not support EDBs being determined 'non-compliant' where the target is exceeded. This is a significant step backwards from the status quo and dulls the incentives under the scheme to the extent to make the incentive scheme pointless.

2.3 We agree with the commission that linking our revenue to reliability will provide better incentives for us to:

i) understand the cost-quality trade-off on our network; and

ii) manage reliability levels recognising the costs and benefits to our consumers.

2.4 However, as it is currently proposed where we to exceed the target, we will both lose revenue and most importantly be determined to be non-compliant. Thereby the incentive for us to give effect to the trade-off between price and service quality; or improve or maintain our understanding and reaction to the cost of providing a given level of reliability by intentionally underperforming the target based on an informed decision does not exist.

2.5 For example, say following the major wind storms in any given year we have a number of pine plantations near our lines that become unstable. We could look to having a number of planned outages so as the trees could be safely harvested. Provided we have no extreme events on our network for the year in which we do those planned outage we can do these planned outage, and our other planned maintenance, and remain under our target. However, we risk exceeding the target if after having the planned outages to harvest the trees we have a major snow storm which results in higher than normal unplanned outages in the same year.

2.6 Under an incentive scheme we would be incentivised to proceed with the planned outages on the basis that the amount of revenue at risk, should we exceed the target at year end, is significantly lower than the costs of an unplanned outage caused by trees going through our lines, as per bullet (i). And as the outages to harvest the trees are planned the outages will cause less disruption to consumers than an unplanned outage, as per bullet (ii).

2.7 As the scheme is currently proposed our incentive to make an informed decision that impacts our reliability performance in that year is removed by the risk of $5 million in pecuniary fines (under s87) or even jail terms (under s87B) if we were to exceed the targets and be determined non-compliant.

2.8 We are of the view that the risk is too high and so if the incentive scheme is applied as proposed given the example above we would: not do the planned maintenance to harvest the trees until the last quarter (January to March) when we can be more certain that we will not have an extreme weather event and are considerably less likely to exceed the path; and meanwhile hope and pray that we do not get spring wind storms in the areas in which these planation's are located.

2.9 We are of the view that to give effect to revenue linked-incentives a non-compliance status can only be applied where a EDBs reliability performance is below the collar. To do otherwise is to dull the incentive to point by which there is no incentive and the scheme is pointless.

The unusual normalisation method

2.10 We are of the view that the commission's proposed normalisation methodology is unusual and adds little or no value to the regulatory framework.

2.11 Using the SAIFI boundary value as a trigger for identifying maximum events days for both SAIDI and SAIFI has no practical basis and results in severely understanding the number of maximum event days.

2.12 Modifying the IEEE method makes no sense when the IEEE method is so widely used by other jurisdictional regulators and understood by the electricity industry worldwide.

2.13 Replacing the actual reliability performance for maximum event days with a boundary value, as opposed to removing the impact of maximum events days entirely is unnecessary. No other jurisdiction in the world uses such a method indicating that the commission is of the view that here in New Zealand there is a systemic problem of EDBs unnecessarily prolonging outages, which we do not believe is the case.

2.14 We are of the view that there is no need for marginal incentives to reduce the duration of an interruption following a maximum event day as EDBs currently have a number of strong incentives that mandate our restoration times during an outage. These incentives include:

- health and safety
- our *Participant Outage Plan Policy* in accordance with the requirements of the Electricity Authority's *Security of Supply Outage Plan*
- service standards under our use of system agreements with retailers and large, direct billed, customers
- consumer's being active about their expectations on social media channels
- our ownership structure i.e., being consumer owned through councils and a trust.

2.15 The health and safety of our crews and the public will always be first and foremost, and will not under any circumstances be compromised. We are very concerned that the commission maybe unintentionally sending the signal that the minutes ticking away should be EDBs first concern on a maximum event day. Further that ill thought messaging by the commission could lead to EDBs being inappropriately pressured to restore supply in unsafe conditions.

2.16 We intend submit alternative methods for normalisation and other aspects of the proposed incentive scheme on 29 August to the commission's *Proposed Quality Targets and incentives for Default Price-Quality Paths from 1 April 2015*.

The release of enforcement guidelines

2.17 The commission states that the existence of a revenue linked incentive scheme in its self reduces uncertainty and provides more certainty on how the commission will assess and enforce compliance. We completely disagree with this view.

2.18 The incentive scheme in its self provides no certainty as to the commission's compliance enforcement response. Particularly given that exceeding the target will be determined to be non-compliant. The commission has stated, at footnote 49 of the proposal, 'that only in exceptional circumstances, for example where an EDB performs below the collar, it may seek pecuniary penalties'. In our view a footnote in a discussion paper falls a long way short of providing certainty.

2.19 We are of the view that the only way to provide certainty of process is to release the long promised enforcement guidelines. We have submitted on this issue on a number of occasions and most recently to the *Default price-quality paths from 1 April 2015 for 17 electricity distributors: Process and Issues Paper* in April.

2.20 In its process and issues paper the commission stated that '[e]nforcement guidelines and informative precedents will contribute to reducing…uncertainty… '. At the time we thought this was encouraging as we took it as an indication that the Commission was considering the release of enforcement guidelines. However, discussion of enforcement guidelines is noticeably absent from the proposal, which is very disappointing.

2.21 We again urge the commission to release enforcement guidelines that inform regulated suppliers of the process that it will take when exercising its discretion as to whether or not it will seek pecuniary penalties under s87 or s87B of the Act at the same time as it makes its determination of the DPP from 1 April 2015.

3. Closing remarks

3.1 We hope that our submission is helpful to the commission in forming its determination of the DPP from 1 April 2015. We are happy to discuss our opinions further the commission should it find it useful.

3.2 The main contact for this submission is:

Sara Carter
Regulatory and Pricing Manager
03 687 4306
sara.carter@alpineenergy.co.nz