

3rd March 2014

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Paolo Ryan
Commerce Commission

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

Dear Paolo,

Transpower RCP2 submission

We appreciate the positive approach Transpower have taken to the development of customer facing performance measures. We believe that this has resulted in a proposal for RCP2 that has made a significant improvement from the measures used in RCP1 and demonstrates that Transpower have made good progress in their focus on all customers.

We hope that this on-going focus on customers by Transpower will continue and improve. We as customers also will continue to work to improve this relationship.

Below are some comments and suggestions in response to the questions asked.

Questionnaire response Commerce Commission Transpower RCP2 plan

| Question | CHH response |
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| Q1 To what extent do you consider the approach based on an assessment of Transpower's asset management framework is appropriate? | |
| Q2 To what extent do you think these alternative approaches are suitable? | |
| Q3 At this stage do you have any comments on Transpower's proposed base capex expenditure that we should consider? | |
| Q4 What are your views on the progress that Transpower has made in delivering the initiatives identified in RCP1, in particular where these initiatives have | |

| Question | CHH response |
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| been used to inform Transpower's plans and justify the resulting proposal of capex and opex allowances? | |
| Q5 To what extent do you consider the current rate of progress for completing GEIP asset management processes for all asset fleets is appropriate? | |
| Q6 What assessment approaches should we consider where forecast expenditure is not based on GEIP asset management approaches? | |
| Q7 To what extent do you consider the proposed level of the productivity adjustment, in light of the rationale given by Transpower, to be reasonable? | |
| Q8 At this stage do you have any comments on Transpower's proposed opex expenditure that we should consider? | |
| Q9 Do you agree that the portion of the benefit that Transpower proposes to forego is appropriate in the circumstances? | |
| Q10 Have you any comment on Transpower's reasoning for voluntarily foregoing part of the IRIS benefit? | |
| Q11 Do you agree that it is inappropriate to make a similar adjustment for opex? | |
| Q12 Do you agree with the cost items chosen for escalation? | |
| Q13 Do you agree with the choice of indices or reference prices used to escalate the selected cost items? | |
| Q14 Are there alternative sources of information that may assist in evaluating the choice of indices or reference prices? | |
| Q15 Do you agree with the methodologies used to forecast cost | |

| Question | CHH response |
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| escalation? | |
| Q16 Is it expected practice for forecast hedging transactions to be taken into account when forecasting cost escalation? | |
| Q17 Are there alternative forecasting methodologies or forecasts that may provide robust alternative cost escalation forecasts? | |
| Q18 Do you have any comments on the link between expenditure and service delivery? | |
| Q19 Do you agree that we should set a baseline demand response expenditure opex allowance? | |
| Q20 Do you agree that we should be considering an approach to approving contingent expenditure if the proposed expenditure is material but has a high level of uncertainty? | |
| Q21 Are there other factors that Transpower could have considered to improve the consultation process? | The consultation process carried out by Transpower included a number of steps in the process and provided sufficient time and provided sufficient information to allow customers to participate fully in the process. We think that there are no significant improvements that could be made. |
| Q22 Are there any important and valuable aspects of consumer service quality overlooked in Transpower's consultation? | The consultation process seemed to identify the major areas that concern customers. One aspect that may not have been given sufficient attention is the method and frequency of reporting on results and other issues of importance to customers. This aspect is expanded upon in question 30. |
| Q23 To what extent do the proposed measures reflect stakeholder feedback on aspects of Transpower's performance that customers' value? | In general, the proposed measures do reflect customer feedback as per para 2.3 of Transpower's document BR04. |

| Question | CHH response |
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| Q24 If the proposed measures do not adequately reflect customer demands, what additional measures do you consider would be most valuable to consumers (for example, energy not supplied, interruptions caused by AUFLS)? | The measure OM5 time on N security provides one good indication of the occasional increased loss of supply risk. Another useful measure could be the number of times /duration that special protection schemes are activated as this is often an indication that a part of the grid is under stress. |
| Q25 To what extent does the criteria that Transpower has used to determine the criticality of the POS reflect feedback from stakeholders? | The criteria in general appears to reflect the feedback from customers although there may be some discrepancies between the list of POS and their categories in the BRo4 report and the spreadsheet previously available to customers. In addition, there is one area that is not entirely clear to us. We understand that POS in the N- security category will only come from the standard category and it is not clear to us that this is the case. |
| Q26 To what extent do you consider that monitoring the performance of 23 circuits will provide a reasonable level of information on the availability of HVAC circuits? | |
| Q27 To what extent do you consider that Transpower's selection of the HVAC circuits for its HVAC availability measure is adequate and appropriate (AP2)? If you consider that Transpower should also include other circuits, please specify which ones. | |
| Q28 To what extent do you consider that the <i>RCP2 targets</i> proposed by Transpower reflect the level of performance demanded by the customers? | A visual review of the bar graphs for GP1 targets for example can only leave one with the impression that the targets are soft. The most graphic example of this is for the high priority category, where the target will have been met very adequately for 5 of the previous 7 years. We consider that it is more appropriate, particularly for targets that have some significant performance outliers, to remove the years where the measure has been substantially above the average and will in any case exceed any target set. Then look at the remaining years and assess a suitable target based on average previous performance. Thus for the GP1 high priority example, the interruption target should more properly be 2-3 pa. |
| Q29 To what extent do you consider that the <i>long term targets</i> proposed by Transpower reflect the level of performance demanded by consumers? | The comment above applies to some of the long term targets. To set a single number long term target appears to imply that there is a target that cannot be improved upon. Continuous improvement is necessary for customers to stay viable and so we consider that this paradigm should be part of the setting of long term targets for Transpower. For long term performance targets, It may be more appropriate to apply a moving average trend target reduction (or increase in the case of availability) of for example say a 3% pa 5 year moving average |

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| <p>Q30 Do you consider that reporting on additional customer service measures would be appropriate, and if so, which measures would be most valuable?</p> | <p>reduction. This could apply to RCP2 and beyond.</p> <ol style="list-style-type: none"> 1. See the comment on special protection schemes in Q24. 2. In addition, we consider that progress in many of the actions proposed in the report BRo4 should be specifically reported on annually and some reporting measures should be reported on a more regular basis than annually. This reporting specifically with customers in mind could form a part of input to customer service related measures as noted in Para 6.13 in the issues paper. <ol style="list-style-type: none"> a. Progress on actions to be reported on annually: could include (see para 2.6 in Transpower BRo4) <ol style="list-style-type: none"> i. Refining reporting of time on N-security ii. Investigating power quality measures and momentary interruptions targets iii. Reporting on the financial impact of interruptions on customers (may also include work on improving the VOLL measure in conjunction with the EA) iv. Improved event reporting especially post-event interruption reporting. v. Work carried out by the working group on power quality etc. b. More regular reporting eg quarterly: <ol style="list-style-type: none"> i. GP1, GP2, OM5,OM6 |
| <p>Q31 To what extent does the incentive rate appropriately reflect the cost to consumers of these interruptions?</p> | <p>The categorisation of POS does provide an improved first order view on the cost of interruption incidents to customers.</p> <p>The comparison against the present standard VOLL of \$20,000/MWh appears to reveal that the present “at risk” sum of \$10M pa is reasonable at least as a starting point.</p> <p>However, as the purpose of this “at risk” sum is mainly to influence Transpower’s behaviour, actions by Transpower as a result of reviewing the outcome of “at risk” measures will likely lead to decisions that will require deployment of resources and possibly CAPEX or OPEX.</p> <p>For that reason, further work in refining the measure of cost of interruptions to consumers should be carried out to ensure that the signals are</p> |

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| | <p>as accurate as possible.</p> <p>The work carried out by the EA and summarised in their reports on Investigation into the Value of Lost Load in New Zealand dated 23 July 2013 and 16 January 2012 provide some information that is an improvement on the standard VOLL.</p> <p>It is recommended that work is continued using the 'Investigation into the Value of Lost Load in New Zealand: Guideline for conducting a VOLL survey' dated 23 July 2013 which should result in a more refined VOLL measure that will be a significant improvement on the present standard VOLL.</p> <p>This in turn should improve decision making by Transpower that relies on VOLL as an input.</p> |
| <p>Q32 What alternative sources of information may assist in evaluating the values proposed by Transpower?</p> | <p>See comment in Q31 above.</p> |
| <p>Q33 To what extent should Transpower be exposed to the cost of the interruptions to consumers?</p> | <p>At the very least, Transpower should understand the size of the financial impact of individual interruptions on consumers, and so it is heartening that they are considering reporting on this. They should be encouraged to find ways to do this during RCP2 (see comments in Q 30.)</p> <p>This could be achieved by</p> <ul style="list-style-type: none"> • More definitive work on VOLL as suggested in Q31. • Obtaining in a systematic way, costs of specific interruptions on individual large consumers. <p>Once this has been done and some results and trends obtained, then the possibility of more financial exposure of Transpower to the cost of interruptions could be considered.</p> |
| <p>Q34 To what extent should individual consumers be compensated for Transpower's failure to meet grid output measure targets, and how?</p> | <p>We consider that most consumers would prefer to have no interruptions rather than get compensation for them.</p> <p>We believe that the proposed incentive/penalty system (with appropriate improvements) should be bedded in during the RCP2 period before the question of compensation to consumers is considered.</p> |
| <p>Q35 To what extent do you consider this range of performance is appropriate?</p> | <p>We note that the caps and collars appear to have been set equidistant from the targets. This may be satisfactory for measures that do not have significant volatility such as HVDC and HVAC availability.</p> <p>However, for measures that have had significant downside (from a consumer point of view) volatility such as in particular interruptions for high priority, important and standard POS, then setting cap and</p> |

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| | collar equidistant from the target is not appropriate. In those cases, the collar should be set higher, or the target should be moved closer to the cap. For example, for GP ₁ , high priority perhaps the cap should be remain at one, the target changed to 2 or 3 with the collar remaining at eight. |
| Q36 Is it appropriate to include these other aspects of service quality in the grid output adjustment, and if so, how should Transpower be incentivised in relation to performance in these areas? | Mandated regular reporting of planned actions and other measures as suggested in Q 30 does provide some incentive to achieve suitable results in these areas. It may be appropriate however to include in the financial incentive/penalties a factor that is measure of customers' view on perceived service from Transpower that might encompass the measures and planned actions that do not at present have incentive/penalty targets. |
| Q37 What is your view on the materiality of Transpower's exposure to the new indemnity obligations arising under the CGA | |
| Q38 Do you have a preferred view on how Transpower's exposure to the (at this time) unknown cost impacts of the amendment to the CGA should be treated for RCP ₂ ? | |

We thank you for the opportunity to submit on this important issue.

Yours sincerely



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