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Brett Woods
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By email: regulation.branch@com.com.govt.nz

Dear Brett

Submission on proposed IPP and compliance reporting

We appreciate the opportunity to comment on the proposed amendments to the Transpower Individual Price Quality Path Determination for 2015 - 2020 and the Commission's Compliance Reporting companion paper.

This is the final in a series of related submissions. It should be read in conjunction with our submissions on:

- draft decisions on the individual price path for 2015 – 2020
- amendments to the Transpower IMs

The focus of this submission is, in the main, on the technical drafting of the IPP, assuming the policy as proposed in the 16 May draft IPP decision. As such, comments are made without prejudice to the substantive comments on IPP and IM policy we have made in our earlier submissions. The appendix is a marked up copy of the draft determination. While we link to our earlier submissions in places, we have attempted to avoid repeating substantive comments from our earlier submissions.

This submission contains our responses to the five topics where the Commission seeks specific feedback. We provide a high level response to each topic in this covering submission and more specific comments in the appendix. We also comment here on a small number of other matters.

A well-crafted draft determination: but some refinement needed

We recognise that the Commission has had a challenging job to substantially rewrite the IPP to reflect a series of new or materially altered concepts. It has had to do this in compressed timeframes and with similarly challenging Part 4 and telecommunications initiatives concurrently in train.

We suggest a number of changes to the draft IPP determination, though these are essentially fine tuning, and we consider that the Commission has produced a draft determination that is of a high standard. Notwithstanding this it seems inevitable, given the amount of new material, that some issues will emerge on first application of the determination and further 'tweaks' may be required.

High level responses to topics 1.5.1 - 1.5.6

We respond to the specific topics raised at paragraphs 1.5.1-1.5.6 of the Compliance Reporting companion paper.

Whether our draft decisions have been accurately reflected in the drafting of the determination

We think that the draft determination gives effect to the Commission's draft decisions (in the 16 May draft IPP decisions and reasons paper) in a way that makes our new obligations clear.

Whether the structure of the draft determination assists in making Transpower's proposed obligations clear

We think that the structure of the draft determination makes sense. That said, this regulation will be a key reference document for many within Transpower (and possibly some outside Transpower) and minor changes could be made to improve its usefulness and clarity.

The main structural change we suggest is to incorporate relevant definitions into this determination so that it can be read as far as possible as a standalone document. We are concerned that the draft decision, which includes only IPP specific definitions and requires the reader to cross-reference the other IMs, makes the regulation more cumbersome to use generally and less accessible for the lay reader. The latter is particularly problematic at a time when we are expecting more of our non-regulatory staff to understand and apply the IPP at a day to day level.

We recognise that there is some slight administrative benefit to cross-referencing other determinations, and it does shorten the determination somewhat, however we do not think that these are sufficient to offset the day to day workability and accessibility costs. We accept that reference to processes and substantive matters in the other IMs is unavoidable.

Whether the definitions we have used are accurate and do not result in any implementation issues or confusion

We think that the definitions in the draft determination are generally accurate. However, we think that some of the terminology and references could be clarified to remove ambiguity. For example as points of service is better understood for our performance reporting than point of connection. We have also identified some referencing errors in the determination (but there may be some we have missed).

Our draft decisions on how we propose Transpower will report on compliance including the necessity for, and cost of, the proposed compliance reporting requirements

The compliance obligations for the price path (under Part 3) reflect the new adjustments under the Capex IM and are as expected.

The quality standards (under Part 4) set clear requirements for reporting on and complying with revenue-linked grid output measures.

We propose three specific amendments to the obligations under Part 5.

- **Forecast MAR update timings:** we appreciate the issue that the Commission has sought to address in changing compliance reporting dates. However are concerned that the proposed timing for annual compliance reporting does not provide sufficient time to perform the necessary calculations (including internal quality assurance) and complete required assurance and corporate governance processes.

We have discussed this issue with Commission staff and, in light of that discussion, propose that the due date for the annual forecast MAR update proposal is the Friday of the 3rd complete week of October and that the Commission's determination of the forecast MAR is made by the 2nd Wednesday of November. We intend to continue the informal practice we have established of providing draft numbers and calculations to the Commission in September.

- **Pricing Compliance Statement:** we recommend that the obligation to produce a pricing compliance statement should be removed. At best, this obligation does not provide any additional value given the controls and assurance around our revenue wash-up and re-forecasting processes, and the obligation we have to report to the Electricity Authority on our adherence to the codified transmission pricing methodology. At worst, the obligation muddies jurisdictional boundaries between the Commerce Commission and the Electricity Authority.
- **Reporting requirements under section 21:** we expand below on our comments in our June 27th 2014 submission on the draft IPP reasons and decisions paper with regard the Commission's proposal to codify both the 'other measures' that we described in our December 2013 RCP2 proposal and its own three additional measures (OM7 - OM9).

When we consulted stakeholders on the development of performance measures, the majority of our effort and focus was on the creation of the revenue-linked grid output measures that reflect what customers are most interested in, which is the number and extent of interruptions to energy supply. During that process our customers raised performance matters in relation to the Outage Protocol (which governs our planned and unplanned outage management and response) and communication around unplanned interruptions. We note that our notification to the market of asset availability is already governed by the Code (Part 13) and any failure to comply with the Code can incur a breach process.

We are committed to improving our interruptions processes and have recently upgraded our incident capture and reporting (ICAR) tool that assists our communication around unplanned interruptions and restoration. We could also with (not trivial) amendments alter the recording and reporting from our integrated outage notification system (IONS) we use to manage our planned outages to compare planned vs actual outage times. Considerable additional testing and development work would be needed (above business as usual) to create information akin to the requirements being proposed. However, our hope for the 'other measures' was (and still is) to have flexibility for innovation around that development guided by input from our customers.

Therefore while we do not think it is appropriate for majority of the measures under section 21 (except 21.1.7 around momentary interruptions) to be codified in the IPP we would be comfortable including them in the business improvement initiatives under section 27.

The potential amendments to Transpower's information disclosure requirements that we have identified.

We respond to the three areas discussed in the Compliance Reporting companion paper.

- **Timing of pricing and annual compliance statements:** we have proposed in this submission that the timing for our pricing and annual compliance statements remains the same as under the current IPP for RCP1. This would mean no timing change is necessary under the Information Disclosure regulation.
- **Correction of ROI formula:** we agree that the ID ROI formula should be changed to align with the corrections we have identified for the cash flow timing formulae.
- **Timing of ID requirements:** we do not agree that the ID requirement to disclose actual revenues should be brought forward. We will disclose available information in our Annual Regulatory

Report in any event, but the ID reporting is more valuable if it presents the year-on-year movement of prices.

We have identified two further areas for changes to the timing of disclosure requirements. These have been identified through a review of our internal planning cycle that aims to achieve a streamlined and effective process that is well aligned with the regulatory cycle.

- **Shifting the “mid-period report”**: from the first to the fourth quarter of the second disclosure year.

The mid-period report incorporates a stocktake of asset health and age, asset management maturity, and the long-term outlook for expenditure in high risk asset classes. While the purpose of this report under ID is to assist interested parties to assess performance against the Part 4 objectives, the exercise of producing the report would be particularly useful if it occurred at the start of the 18 month process of updating our corporate strategy, asset strategy, and integrated transmission plan and regulatory proposal. The current timing means that the report would be ‘stale’ by the time this process started.

We recognise that our proposed timing would extend the time between an RCP proposal and the following mid-period report from three years to three-and-a-half years, but do not think this would harm the operation of the ID regime.

- **Removing the obligation for an ITP update in year four**: we currently have an obligation under the Capex IM to produce an update of our integrated transmission plan (ITP) in the quarter immediately prior to releasing a new ITP. We cannot see any value from this disclosure obligation.

Other matters

Listed projects

We support the proposal to introduce a listed projects framework and commented on a number of related practical implementation and incentive issues in our submission to the draft IPP reasons and decisions consultation.

We consider that it will be necessary to define, in light of the Commission’s policy decisions for listed projects, how the listed projects framework will operate - for example, the basis for setting the listed project allowance (which will be affected by the incentive mechanism selected). We propose to work with the Commission to develop that framework further once the IPP is finalised.

We agree with the list proposed in schedule J. While we understand why the Commission may wish to include indicative costs with the project list these should, for the avoidance of doubt, be viewed as highly uncertain.

Grid / asset performance measures

In our submission to the draft IPP decisions and reasons paper we proposed to introduce additional revenue linked grid output measures (asset health). The Commission accepted our proposal and is consulting concurrently. Our proposals are reflected in the mark-up of the draft determination at the Appendix.

Schedule F lists a set of unique locations identified by the letters and numbers against a performance category. We consider the list is better understood by ourselves and customers as identification of *points of service* rather than *points of connection* or any other name.

We also note that the list is necessarily static during the control period even though there may be points of service that are created or divested through a regulatory period and suggest that for regulatory and reporting efficiency it is clear that we report against the static list at the category

level. To ensure that the list is as up to date as possible we have marked up schedule F to reflect the grid as we expect it to be at 1 July 2015 and we propose that the list should be reset at that time to reflect the actual grid.

Please let me know if you have any questions or would like to discuss any of the points made in this submission.

Yours sincerely

A handwritten signature in black ink, appearing to be 'JC' followed by a long horizontal line.

Jeremy Cain
Regulatory Affairs Manager

Appendix – Mark Up of Draft Determination

See separate document