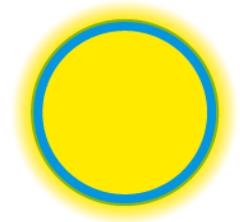


10 March 2014

Paolo Ryan
Commerce Commission
Wellington
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[Sent by email to: regulation.branch@comcom.govt.nz]

POWERCO



Dear Paolo

RE: Cross submission on the Issues Paper on Transpower's individual price-quality path and proposal for the next regulatory control period

Thank you for the opportunity to make a cross submission on the Issues Paper: *Invitation to have your say on Transpower's individual price-quality path and proposal for the next regulatory control period* (the Issues Paper).

We have read the submissions by MEUG, Meridian, Carter Holt Harvey and Transpower and would like to note a number of points made that we agree with.

Consumer engagement by Transpower

The submissions by Transpower's customers are generally positive about its engagement process with respect to developing service measures. We would also like to endorse Transpower's approach, as we felt fully consulted and had many opportunities to comment and respond to the proposed service measures. For example, we made submissions in December 2012 and in March 2013.

As one of Transpower's major customers, we also have a key account manager who liaises with us on the quality of service. This provides us an opportunity to provide ongoing feedback as well, which we consider Transpower has taken into account.

Good electricity industry practice and Condition Based Risk Management

Transpower's submission makes a range of comments on paragraphs 5.15 to 5.19 in the Issues Paper, which relate to good electricity industry practice (GEIP). We agree with Transpower's comments.

In summary, the Commission states in paragraph 5.15 of the Issues Paper that GEIP should include the "development of robust health models for asset fleets and consider asset criticality within a wider risk management framework". Footnote 56 notes that "one commercialised example of such a framework is the Condition Based Risk Management software platform, developed by EA Technology, known as CBRM 2.0".

Transpower's response states that:

- Paragraph 5.15 could be interpreted to mean GEIP can only be achieved with a fully quantified, financial risk model, a position that Transpower disagrees with.

- The comprehensive application of CBRM is better described as “best” industry practice and is not the norm in New Zealand.
- Developing a fully quantified risk management approach takes significant time.
- Use of a broader GEIP definition (such as in paragraph 4.3) is a better approach than identifying a particular commercial software platform (see paragraph 5.15) as a benchmark for good practice.

We agree with the statements from Transpower. Developing health indicators to a point where the metric can appropriately inform future investment decisions can take several years to implement. At Powerco we are developing a more “asset health” based approach to asset lifecycle modelling, and consider the time taken by Transpower to develop their models to be reasonable.

We agree with the Commission’s statement in paragraph 4.2 that “the assessment of forecast expenditure is not a mechanistic process and necessarily involves the exercise of judgement”. At Powerco we are limited by the incompleteness of asset-related data in some areas. Ultimately, some judgement is needed, based on an understanding of the limitations of the data and models, engineering experience and knowledge of the network. We agree with Transpower that a key step to help ensure judgements are robust is strong internal challenge and review.

The cost of indemnities for quality of service under the Consumer Guarantees Act

Transpower has proposed an amendment to the Input Methodologies (IM) to allow indemnity obligations associated with the Consumer Guarantees Act to be pass-through costs. In the Issues Paper the Commission states its initial view is that treating these as pass-through costs would not be appropriate. The main argument supporting this view is that to do so would weaken incentives for Transpower to manage costs efficiently and provide the quality that consumers demand.

Transpower argues in its submission that the proposed change to the IM is needed because of the potential size and uncertainty of the risk. As an electricity distributor, Powerco is also affected by the changes to the Consumer Guarantees Act, and we agree with Transpower’s statement on this issue. The main problem is that a third party could cause a major service disruption, over which a utility company has very limited or no control. If this led to an event that affected a large number of customers or consumers (which is very likely in Transpower’s case), it would create a very high liability risk. Hence, the argument for pass-through or recoverable cost status is that the quantum of the risk is very difficult if not impossible to predict and the risk itself will often be outside the control of Transpower or the distribution company.

Thank you for considering the points made in this cross-submission.

Yours sincerely



Richard Fletcher
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