Submission to the Commerce Commission

on

Proposed Quality Targets and Incentives for

Default Price-Quality Paths from 1 April 2020

20 December 2018

Introduction

1. Alpine Energy Limited welcomes the opportunity to submit on the Commerce Commission's paper *Proposed Quality Targets and Incentives for Default Price-quality Paths from 1 April 2020*, dated 15 November 2018 (the Issues Paper).
2. The focus of this submission is our views on the:
   i) revenue cap; and
   ii) reliability standards.
3. We make the following recommendations to the Commission when drafting its determination:
   i) revisit the release of enforcement guidelines
   ii) consider including a banking mechanism whereby revenue at risk under the incentive scheme can be banked during the period
   iii) if the Commission does not see the value of a banking mechanism, then we recommend that a lower percentage of revenue at risk, in line with the two standard deviations for the cap and collar, for example, 3%
   iv) removing the boundary value and zeroing out of all major event days.
4. Our views are expressed in all other matters, by the Electricity Networks Association's (ENA) and PricewaterhouseCoopers (PwC) submissions.
5. None of the information in this submission is confidential.

Specific Issues in setting DPP3

Implementing the Revenue Cap – Section 5.2 (Page 44)

6. We support the change to a revenue cap. However, we remain concerned around the form that the revenue cap will take. There is no mention in the Issues Paper of the mechanism for new growth for example.

7. In the event of network investment to meet growing demand up and beyond that allowed for in the forecasts, an EDB will need to recover its efficient costs. The Issues Paper is silent on how the revenue cap will account for the additional expenditure required to meet demand growth.

8. Accordingly, we urge the Commission to be mindful when drafting its determination that there are EDBs with growth on their networks and that there must be a rigorous mechanism for those EDBs to be kept whole under the revenue cap without having to default to submitting a customised price path (CPP) proposal.

Reliability standards and incentives

Quality standards relating to reliability – Section C8 (Page 92)

9. We are of the view that removing the most extreme years of the 10-year reference dataset would reduce the SAIDI and SAIFI average. The inclusion of extreme years is preferable as we would expect similar patterns to occur over a rolling 10-year period.

10. Table C1 below[1] shows that the number of breaches which would potentially become greater going forward due to a reduction of limits thereby evidencing that removing the most extreme reduces the boundary limits, which in turn impacts revenue at risk as well as SAIDI and SAIFI targets.

Table C1 Limits exceeded and compliance contraventions, regulatory period to date

EDB	SAIDI Limit	SAIFI Limit	Compliance contraventions
Alpine Energy	1	-	2016
Aurora Energy	3	2	2016; 2017; 2018
Eastland Network	1	-	-
Electricity Ashburton	1	1	-
Horizon Energy	2	1	2018
The Lines Company	2	1	2018
Unison Networks	2	-	2018
Vector Lines	3	2	2016; 2017; 2018
Wellington Electricity	2	2	2018

[1] Page 95 of the Issues Paper.

Consideration of the two out of three rule – *paragraph C9 on page 92*

11. We support the continued application of the two out of three rule for quality standard contraventions.

Automatic compliance contravention reporting – *paragraph C10 on page 92*

12. We welcome automatic compliance contravention reporting to understand the state of the network and the responses are taken to address the worsening reliability performance. However, our support is contingent on the Commission providing sufficient detail in its draft determination about:

    a) the reporting requirements
    b) how much reliance the Commission would place on this information
    c) the Section 53ZD information request
    d) whether an investigation would still be required.

13. This detail could take the form of enforcement guidelines released before the start of the regulatory period, e.g. late February 2020. Accordingly, we recommend that the Commission revisit the release of enforcement guidelines.

Incentive scheme

Paragraph C12 on page 92

14. Increasing the revenue at risk from +/- 1% of maximum allowable revenue (MAR) to +/- 5% of MAR is a significant increase in an electricity distribution business, e.g. for us revenue at risk increase from $300k to $1.5M. The proposed +/- 5% of MAR under DPP3 is material and even more so when the penalty is considered in conjunction with a potential fine under s86 of the Commerce Act should an EDB breach the quality standards.

15. The +/- 1% MAR under DPP2 (period 1 April 2015 until 31 March 2020) has been a light incentive, in that the materiality has made less of an impact on prices than will be the case at DPP3 (the period 1 April 2020 until 31 March 2025) with revenue at risk increasing to +/- 5% of MAR.

16. We recommend that the Commission considers including a 'banking mechanism' whereby any amount, which is at risk over the period can be banked and then recovered and or released during the period thereby smoothing out the impact of the +/- 5% incentive.

17. As the incentive becomes more material, the impact on end prices to consumers also becomes more material. The absence of banking mechanisms introduces price volatility, and we are of the view that a banking mechanism effectively and appropriately manages that volatility.

18. If the Commission does not see the value of a banking mechanism, then we recommend that a lower percentage of revenue at risk be applied, in line with the two standard deviations for the cap and collar, for example, +/- 2% of MAR.

Paragraph C13 on page 92

19. We welcome widening the cap and collar to two standard deviations above the historical average. Widening the cap and collar allows for EDB's to have greater

headroom before exceeding the SAIDI and SAIFI limits but would need to be in line with the penalty discussed at paragraph C12 of the Issues Paper and paragraph 15 above.

Paragraph C14 on page 92

20. We are of the view that the Commission will need to give further consideration as to the practicalities of measuring performance for notifications of planned interruptions and new connections. Such practicalities include:

    a) the timing issues between when a quote is given for a new connection and when the customer accepts that quote, which in our experience can take several months

    b) EDB's using various mechanisms for reporting outages. e.g. mail drops Vs retailer involvement and how this activity can be practicably recorded and monitored.

Normalisation - paragraph C17 on page 93

21. We recommend removing the boundary value and zeroing out of all major event days.

22. Major event days have typically occurred in years when we have exceeded our targets due to extreme weather events. While we agree that networks should be built to the conditions that they operate in building networks to meet extreme weather events will arguably result in gold-plated networks and higher costs to serve.

23. We are of the view that zeroing out major event days would more effectively highlight outages caused by sustained deterioration on a network, which is the purpose of the quality standards. Accordingly, we recommend that the Commission reconsider its position on the need for the boundary value.

Closing Remarks

24. We hope that our submission is helpful to the Commission in making its determination of the quality targets and incentives under the DPP effective from 1 April 2020.

25. We are happy to discuss our views with you further if you would find it useful to do so. The primary contact for this submission is:

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