Eastland
Network

2020 DPP Reset Issues Paper

Submission to Commerce Commission

20 December 2018

Contents

1 Summary

Eastland Network Limited (Eastland) appreciates the opportunity to provide this submission in response to the Default price-quality paths for electricity distribution businesses from 1 April 2020 – Issues Paper dated 15 November 2018.

Eastland submits that they are supportive of the ENA submission for the forecast of Opex and Capex but our views vary from those of the ENA in relation to Quality of Supply.

In summary our views on quality are

- We support the continued combination of planned and unplanned outages for both the determination of compliance and the incentive scheme
- Eastland also support the retention of the two out of three rule for compliance
- We support the use of the latest 10 year span reference period for the determination of limits, caps, collars and boundaries
- Revenue at risk for the quality incentive scheme should remain at 1% of MAR. There should also be no widening of the cap and collar for the incentive scheme;
- Eastland supports using the 23rd highest daily unplanned SAIDI and SAIFI calendar day for the normalising of MEDs
- Eastland also supports the alignment of normalisation between the DPP and the Information Disclosures
- A rolling 24 hour period should be used for major event days and multi-day events should be allowed to be aggregated;
- Eastland does not have the systems in place to provide robust data on LV interruptions therefore we are not supportive of inclusion of this information in quality standards
- Eastland is not supportive of the inclusion of MAIFI or other information for the determination of quality of supply largely due to cost but also for practical reasons.
- The IRIS incentive scheme has had some particularly poor outcomes for Eastland which should be remedied;
- Eastland also raise an additional matter in relation to anomalies relating to audit requirements for the assessment of outage data and would like to see the audit requirements for information disclosures and the annual compliance statement aligned.

2 Introduction

This submission has been prepared in response to the Consultation Paper "Default price-quality path for electricity distribution businesses from 1 April 2020. If you have any questions regarding this submission please contact

Brent Stewart
General Manager – Networks
Ph: (06) 869-0701, 021 760 034
PO Box 1048
Gisborne 4040
brent.stewart@eastland.nz

Eastland owns and operates the electricity distribution network located in the East Coast of the North Island. Eastland is 100% owned by the Eastland Community Trust with the Gisborne District Council as the capital beneficiary of the trust.

Eastland distributes approximately 300 GWh of electricity to approximately 25,500 consumers of which almost two thirds are located in Gisborne City and Wairoa township. The remaining consumers are widely dispersed across two isolated networks covering approximately 12,000km[2]. This results in an overall consumer density of 7 connections per circuit km, less than the industry average of 13 connections per circuit km and the industry median of 9 connections per circuit km. Eastland has considerable diversity across the network, with rural connection density less than 3 connections per km, and urban connection density approximately 25 connections per km.

We have experienced little growth for the past decade, as most of our consumers are domestic users, and many of them with relatively small consumption. A significant proportion of our revenue is recovered via variable tariffs. In addition, our network supply area is one of the lowest socio-economic regions in New Zealand, and this is reflected in low energy consumption growth due to resistance to retail electricity prices.

3 Forecasts of Operating and Capital Expenditure

Eastland Network is supportive of the ENA submission on these matters.

4 Reliability Standards and Incentives

In some aspects of these matters, Eastland Network's views diverge from those of the ENA.

4.1 Treatment of Planned Outages

The current treatment of combined planned and unplanned outages is supported by Eastland Network for both compliance and the incentive scheme.

The separation of quality standards for planned and unplanned work will add additional complexity and cost to an already complex and costly process. Eastland are unconvinced there would be a net benefit in the proposed change.

While there is an incentive to defer planned works if SAIDI or SAIFI is close to limits, in our experience, the effect of deferring planned work is usually quite small. We note that breaches of SAIDI and SAIFI limits are typically large and due to a series of major events in a year. Further, many of the non-breach results seem to indicate that some planned works would still have been possible without limits being exceeded. Therefore we do not believe it to be such an issue that the two need to be separated.

Also, planned work is often at the request of the customer for example new connections or local council requirements. Therefore we would have significant difficult forecasting planned outages months ahead of time.

However, if the Commission has real concern regarding the deferral of planned outages then Eastland would support a reduced weighting of planned outages for the calculation of SAIDI and SAIFI for both compliance and the incentive scheme.

4.2 Consideration of the two out of three rule

Eastland are supportive of the current two out of three rule.

Our view is that an annual limit does not provide enough flexibility to allow for extreme events (such as major storms or planes crashing into lines) that are beyond the control of networks. Nor are we convinced that the other proposals mentioned in C39.2-C39.4 of the DPP Issues paper will solve the issues of numerous breaches in the current pricing period. The Commission should not be too hasty to make significant changes to the quality standards until they have determined the causes of the number of breaches. After the Commission has a firm view of the causes, the correct solution should be proposed. Changes prior to this may cause further issues rather than solving an as yet unidentified problem.

4.3 Reference period

Eastland support the use of the latest 10 year span (2008/09 to 2018/19) reference period. Eastland consider that the latest results are the most appropriate to apply as they more closely reflect current operating environments. On this matter we are supportive of the ENA submission. However, Eastland Network does not support the removal of any years as this will distort the true results and not be reflective of current operating environments.

Under the incentive scheme EDBs have already been rewarded or penalised for their quality performance. Removing the most extreme years has the effect of increasing the reward or penalty (through a higher or lower quality limits) and carrying this through to the next pricing period. Eastland submits that it is not appropriate for additional rewards or penalties to continue to be imposed for extended periods of time.

4.4 Quality Incentive Scheme

4.4.1 Revenue at Risk

Eastland supports the retention of 1% revenue at risk. Raising the revenue at risk to 5% creates significant volatility in distribution pass-through prices which are currently somewhat difficult to manage. This is because the amount of the reward or penalty causes large swings in distribution pass-through prices. As Eastland's distribution pass-through costs are quite low, the incentive scheme is up to 50% of the total costs. When adjusting distribution pass-through prices for volume variations and total distribution costs (incl incentives), these prices can in some tariffs become large negatives one year and positive the next.

Further, Eastland have analysed the result of combining the increase in revenue at risk to 5% and widening the cap and collar to 2 standard deviations the net difference in incentives between 2017/18 and 2019/20 was a mere $1,104. Consequently, Eastland sees very little benefit from the proposed change but significant swings in costs and therefore prices.

Eastland results compared (000)	2017/18	2018/19	2019/20	Total
Actual Incentive	232	-139	125	219
5% of MAR, Cap/Collar at 2 Std deviations	477	-558	300	220
Difference	245	-419	175	1

Removal of caps and collars is likely to also have the effect of very large swings in distribution pass-through prices in years of extreme events followed by a year of calm weather. Eastland therefore supports retention of the status quo.

4.5 Normalisation

Eastland supports the continued use of normalising an MED using the 23rd highest daily unplanned SAIDI and SAIFI calendar day over the 10-year reference period.

4.5.1 Consistency between DPP and ID normalisation methodologies

Eastland also supports the alignment of normalisation between the DPP compliance and the Information Disclosures.

4.5.2 Major event span

Eastland support the proposal of the ENA to allow normalisation of a major event day across a rolling 24-hour period and allow for the aggregation of multi-day events and/or follow-up interruptions for extreme events. This aggregation should include planned outages where these are necessary to repair the network to the appropriate standards. An example of where we believe this should have applied is in December 2016. Eastland lost power to approximately 20,000 customers when a plane struck both circuits of the 110Kv line supplying power to the Gisborne/East coast region. The initial unplanned outage lasted 30+ hours while crews worked in a remote and rugged part of the network to restore one circuit as quickly as possible. The second circuit was repaired several days later as a planned outage which allowed Eastland time to communicate the outage and allow business and the community to prepare for the event. In this situation, Eastland were unable to normalise the planned outage and consequently the SAIDI results for that year were well above average. Conversely, if Eastland had left the power off until the second circuit was repaired, the entire event would have been normalised and no further penalties imposed but the community would have been much worse off.

These anomalies and perverse incentives should be removed.

4.6 Interruption data on LV lines

While interruptions on LV lines are not formally recorded, they are by no means ignored. Fault calls are directed in the first instance to a third party call centre who send the data collected directly to our control room. However, the faults are often not network related eg the hot water cylinder is faulty. Consequently, Eastland does not believe the data of this type is robust enough to be truly reflective of the service being received by customers.

4.7 Momentary average interruption frequency index (MAIFI)

MAIFI data is not readily available from Eastland Network and would require further upgrades to systems. Eastland do not believe there is enough benefit for customers to justify the investment, nor is it something that customers want. In our most recent December 2018 survey when customers were asked how often they noticed the lights dim 78% responded as never or rarely, when prompted with “is this a problem for you”, 92% answered never or rarely.

Consequently, Eastland Network do not consider the investment in systems to record this data will add additional customer satisfaction.

4.8 Interruption reporting by location, network type and customer type

Eastland believe that additional more detailed information regarding quality of supply is best contained within the Asset Management Plan and that such information should not be regulated but have the flexibility to be developed over time as asset management practices evolve.

4.9 Disclosure of electricity losses

Eastland agrees with the Commission that the calculation of electricity losses from interruptions would be problematic and consequently should not be implemented at this stage.

4.10 Other measures of quality

Eastland Network are opposed to the introduction of additional measures of quality proposed by the ENA working group earlier this year.

In relation to notification of planned outages, Eastland notify retailers who in turn notify their customers. While we are confident in our process and meeting the requirements of notification to retailers, we cannot vouch for retailers nor should we be held accountable for the failings of a third party. We consider this notification via retailers to be appropriate as the customer has a choice of retailer and the ability to change if the retailer service levels are below expectation.

Also, quotes for new connections are provided by independent third parties. Consequently, Eastland would not have the information available to determine the time taken to quote on job. It is also not appropriate for Eastland to interfere with third party commercial arrangements.

If there is an expectation that this information will be audited, we are unlikely to be able to achieve an unqualified audit

5 IRIS incentive Scheme

Eastland believe that under the existing IRIS scheme they have been unduly penalised for the acquisition of Transpower assets in 2015/16.

The issue is that the Commission did not allow for the additional operating costs associated with the management and maintenance of the new high voltage assets. While we have reluctantly accepted that there was no allowance provided for the opex associated with these additional assets for the setting of allowable revenues, we do not believe the intention was to continue to penalise Eastland Network into the next five year regulatory period. The penalties are imposed through the fact that the DPP opex was used for the determination of IRIS penalties. The additional operating costs of these transmission assets were excluded from the DPP opex allowance and this omission was carried over into the IRIS scheme. Consequently, the additional opex Eastland has incurred to manage and maintain these assets are considered under the IRIS scheme to be an inefficiency and revenue penalties will be incurred.

Eastland consider that this is an error in the IRIS scheme and should be remedied so that others do not incur the same penalties for prudently managing assets acquired from Transpower and/or others.

We submit once again that the five year ACOT allowance was an incentive to encourage EDBs to acquire the assets which would ultimately be more cost effective for the entire industry and their customers. Without this incentive, none of these transactions would have occurred. Eastland submits that the Commission should remedy the IRIS scheme to provide Eastland relief from the penalties imposed during the 2020-2025 pricing period.

6 Additional Matters

A further matter has come to our attention recently that we would like to raise in our submission. This relates to the differing audit opinions that are required for the DPP Compliance Statement and the Information Disclosures and how it relates to the recording of outages.

The problem arises because the audit assurance statement for the annual compliance statement requires the auditor to provide an opinion on the basis that:

> '…the SAIDI and SAIFI statistics…which are relevant to the quality standards…included examination, on a test basis, of evidence relevant to the amounts and disclosures contained on pages [*insert page references*] of the Annual Compliance Statement'.

This is different to the requirements for the Information Disclosures assurance report which requires that the auditor give assurance that:

- the information has been properly extracted from the EDBs records; and
- proper records to enable the complete and accurate compilation of the information have been kept by the EDB.

Many of the smaller EDBs have manual systems for recording outages. Currently, these systems provide the most cost effective method of capturing and recording outage data for smaller networks. Eastland understands that some EDBs are receiving qualified audit opinions for manual systems as auditors cannot verify that complete records have been used to calculate the information for Information Disclosures. However, these same clients are receiving unqualified audit opinions for their annual compliance statements because auditors are able to use “testing methods” for compliance statements for the verification of outage statistics.

Eastland submit that this matter should be addressed by aligning the audit requirement for the determination of outage statistics in Information Disclosures to those of the Annual Compliance Statement. If testing of data is adequate for the determination of compliance, then it should also be adequate for the disclosure of information.

End of document

Eastland Network
Eastland Network, 172 Carnarvon St
PO Box 1048, Gisborne 4040, New Zealand

Tel 06 869 0700 | Fax 06 867 8563 | info@eastland.nz | **eastland.nz**