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Dear Rob

Commerce Commission electricity distribution sector priorities

Counties Power welcomes the opportunity to provide feedback on the Commerce Commission's (Commission) open letter 'Our priorities for the electricity distribution sector for 2017/18 and beyond'.

Overall, Counties Power fully supports the Commission's direction and initiative for seeking feedback and open dialogue. We also note the Commission's early engagement, which we believe is an exemplar of regulator best practice.

Greater understanding about performance

Counties Power agrees with the Commission's proposal to improve its insight into EDB performance. To this end, Counties Power believes that the high penetration of smart meters (at 85%) means that data now exists to more accurately benchmark and monitor electricity distribution business (EDB) performance. This is because smart meter data now exists to determine power quality at the customers premise as opposed to the existing power quality data that measures performance at the network high voltage level.

This will bring the distribution sector into alignment with other utilities such as telecommunications, with service performance measures such as the quality of the voltage supply and power availability at the customer premises. However, critical to this monitoring performance improvement is the commercial arrangement for the supply of this data to the Commission and EDBs, with retailers often restricting the release of the data¹.

Making information accessible

The Commission needs to be mindful that the ability of EDBs to communicate with electricity consumers is curtailed because the contractual relationship with retailers limits the ability to obtain and use the consumer information that is held by the retailer. Given that electricity is an essential service this is not an ideal situation and EDBs are actively working to make performance information more easily understood to a wider audience through the use of outage apps, texts and emailing. While this is currently providing immediate outage information, and so does not represent the information disclosure data, it is an important first step for EDBs to engage with consumers.

¹ Counties Power recently sought retailer approval to use the retailers' customer email contacts to send an annual e-newsletter and received unconditional approval from only one retailer.

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To this end, Counties Power has developed a publicly available outage app around five years ago and is now in the process of introducing a new app that will combine smart meter real-time data with fault staff real-time data in the field. We believe that this engagement with consumers will become more important with the increasing uptake of distributed generation and batteries and as the move to decarbonise the economy places an increasing reliance on electricity for businesses, household and transport.

In the future, EDBs could use this communication option to inform customers about infrastructure condition and future projects that specifically affect them. In comparison, the one-pager summaries would be read by a very narrow audience and are easily misunderstood because they lack context².

Engagement through EDB trusts

Counties Power believes that consumer trust owned EDBs are more highly engaged with the end consumers through their trusts, who represent consumer concerns and requirements back to the EDBs. This is through the trustees obtaining direct feedback from consumers and through their individual experiences as consumers within the EDB.

For Counties Power, this has resulted in a significant increase in preventative maintenance and capital renewal programme over the last two years, while over the last three years the Company has either held prices or held the distribution price component. In addition, all profits earned have been reinvested back into the business, while at the same time paying line rebates to all consumers.

Alternative distribution models

As part of its work programme, the Commission should consider the regulatory issues around alternative distribution models, which includes non-network islanded clusters and microgrids. These types of network models are increasingly common in Australia and offer an alternative to the traditional network investment. As occurs in Australia, EDB are the natural party to invest and maintain these types of alternative models and they offer economic efficiencies particularly for remote communities but do require alternative models for generation and retailing. Similarly, a review is also required of embedded and customer networks.

Focus areas for 2020 DPP reset

While Counties Power is price exempt, Counties Power follows its default price-quality path (DPP), which is calculated using the Commission's Excel model. The DPP is an important consideration in the annual review of its line prices because it provides an objective pricing benchmark. Consequently, Counties Power is keen to participate in the 2020 DPP reset and requests that the Commission address the following issues:

High voltage private lines

Counties Power is proactively mitigating the health and safety risks around older high voltage private lines through taking over their ownership, where appropriate and with the agreement of the landowner. High voltage lines on private land, which are spur line supplying the landowner, are an extension of an EDBs network and so the Commission needs to determine how the associated costs should be recovered under the DPP. For EDBs the process of taking over the HV lines will occur over a number of years and so any mechanism in the DPP needs to increase the price path as the number of high voltage service lines managed by the EDB accumulates.

² The one-page summaries conveyed a message that older infrastructure was less reliable, which negates the fact that with long-life distribution assets, older infrastructure may be more reliable if it is of better quality and better maintained than newer infrastructure.

Returns based on totex (total expenditure)

The current DPP incentivises price non-exempt EDBs to favour capital investments where a profit return can be made over more efficient operating expenditure. This gives financial incentives to make non-optimised financial decisions, with investments like software which is increasingly a cloud based service rather than a software and server investment.

A totex approach would also encourage more efficient EDB supply arrangements, such as high voltage EDB line services provided by neighbouring line companies with spare capacity, as opposed to EDBs investing in new substations.

Quality measures

Counties Power believes that an issue for the DPP review is the SAIDI and SAIFI quality measures because of the impact of EDBs stopping live line work and the blunt nature of these measures. Of these issues, the Commission needs to recognise in the DPP review that for EDBs like Counties Power live line work is no longer frequently undertaken, as in some cases it presents an unacceptable hazard and, therefore, safety risk. Consequently, the SAIDI and SAIFI measures need to be adjusted accordingly.

In addition to this, the Commission should consider undertaking work on how these measures could be refined so that:

- They more accurately reflect the service being provided (currently a dry-summer season irrigation pump is recorded as having the same SAIDI and SAIFI impact as a major industrial plant);
- They are split between controllable and uncontrollable causes because some EDBs are being impacted by causes outside of their control. For Counties Power, this has been outages from vehicle hitting power poles, which have risen dramatically as urban growth in South Auckland has increased vehicle numbers of rural roads; and
- There is compensation for increased planned outages that is the result of increased network investments. For Counties Power, planned outages have increased over previous years because of outages related to the increased network investment (including an increased network renewal programme, subdivision development and core network capacity) .

In conclusion, Counties Power welcomes the Commerce Commission's openness and willingness to listen and to engage with the industry. We believe that this is the correct approach given the rapid changes in technology and we wish to be involved in the industry dialogue.

Yours sincerely



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