Feedback on Stakeholder Submissions

Meridian in its submission raised a number of issues related to the treatment of EV adjustments. We respond to these points below.

Spreading EV Adjustments

The Commission is reviewing whether EV account entries should be spread over more than one year to avoid price shocks in exceptional circumstances. This might include large entries from MAR wash-ups or incentive mechanisms.

Submission

Meridian understands need for annual wash-ups via the EV account. Meridian considers effort should be made in forecasting MAR as accurately as possible and keeping customers informed of potential deviations. They support consideration of:

1. spreading the annual wash-up from a particular year over more than one subsequent pricing year in order to smooth the impact of MAR variations;
2. examining the timing assumptions used in setting the MAR forecast to determine whether these could be improved to make the forecast more accurate e.g. if better information is available on the commissioning of a particular asset than the standard "mid-year" assumption, this should be used;
3. publishing regular (e.g. quarterly) updates to forecast MAR during a pricing year, in order to provide a running picture of the likely wash-up. This would provide useful information to customers substantially affected by the wash-up process;
4. providing additional details on the breakdown of wash-ups to what is currently provided in Transpower's Annual Regulatory Report.

Transpower Response

With respect to the points made by Meridian we:

1. support inclusion of a mechanism for spreading large EV adjustments over more than one year but note that this should be reserved for exceptional circumstances to avoid the EV accounts accumulating large balances;
2. recognise that the large and "lumpy" nature of some of the recently completed MCPs resulted in large EV adjustments. We consider that spreading large EV adjustments over more than one year would be a more effective way of addressing the problem. That is because (a) using mid-year forecast commissioning date is symmetric and diverging from this increases the risk of large EV adjustments (b) the materiality of this issue in future is expected to be smaller in future given the smoother expenditure profile;
3. agree there would be benefit in establishing regular revenue forecast updates throughout the year. This would build on the ad-hoc process we have established over the past 18 months. In addition to our November notifications we think the logical point to provide an updated revenue forecast to customers will be on completion of our business planning (around June). Material changes, e.g. due significant shift in a MCP commissioning date, could trigger an additional update.
4. are happy to discuss providing different or more information with Meridian (and others) and provide additional information where practical (we note that the Commission has recently determined new information disclosure requirements for Transpower[1]).

Responses to Questions

The following table sets out responses to stakeholders on the Commission's Issues Paper. It has been prepared on an exceptions basis, including responses where we believe we can provide further clarification for stakeholders.

Commission Question	Stakeholder Submission	Transpower Response
Number 11 Do you agree that it is inappropriate to make a similar adjustment for Opex?	**MEUG** No. We suggest it is more appropriate to include an expected productivity gain for Opex as well as Capex. Businesses in workably competitive markets expect their competitors will in the future achieve productivity gains in both Capex and Opex and to survive each business must strive to achieve the same. Transpower suggest expected productivity gains in Capex are linked to Opex because to achieve Capex improvements requires higher Opex. For this reason no expected productivity gain in Opex is required. We disagree for 2 reasons. First management time and decision making to consider and implement Capex productivity gains should also be the subject to continuous improvement and expected improvements compared to the	Productivity can best be described as the ratio of outputs produced to the inputs used. As a result higher (gains in) productivity can be achieved in a number of ways and not only through a reduction in inputs, or Opex in this case. We continuously strive to achieve productivity gains. In aggregate our proposal will see us deliver improved service performance while reducing costs (in real terms) i.e. becoming more productive. To achieve this we will need to improve productivity across all areas of our business, particularly by realising increased performance from our systems and workforce. Such improvements have been captured by our Opex forecasts. This includes specific savings across all major Opex categories (i.e. Grid, ICT and Corporate) as well as our Capex categories. Specific Opex examples include: • **routine maintenance** – savings that reflected our capital investment programme, enhanced work management processes and the move to reliability focused asset maintenance;

[1] See: http://www.comcom.govt.nz/regulated-industries/electricity/electricity-transmission/transpower-information-disclosure/

Commission Question	Stakeholder Submission	Transpower Response
	status quo. Second some innovations in Capex may lead to lower ongoing Opex. We suggest any expected productivity gain factor should apply to the change in performance along the industry best practice or production frontier. In addition Transpower should have company specific "stretch" targets to transition the company from its current performance to best practice. The greater the variance between current and best practice performance then the greater the stretch targets should be. In workably competitive markets companies distant from best practice must improve performance rapidly or they go out of business. The latter cannot apply to Transpower but the pressure to lift performance should be mimicked.	• **corporate Opex** – savings from initiatives to reduce travel costs, insourcing and optimising the costs of the Grid Operating Centres and SCADA model maintenance • **ICT Opex** – savings from renegotiation of telecoms (TransGo) support and maintenance contracts and support costs for security services It addition the IPP incentive mechanisms promote the discovery and pursuit of efficiency gains.
Number 18 Do you have any comments on the link between expenditure and service delivery?	**MEUG** This is critical if Transpower is to be at world best practice. MEUG agrees with the intention of the Commission "to undertake further work in this area" (paragraph 5.35).	No further comment.
Number 19 Do you agree that we should set a baseline demand response expenditure Opex allowance?	**MEUG** It's not possible to comment on this without seeing the details of the proposed work programme, how much it will cost, how that expenditure links with service delivery and compliments or not other work by Transpower.	No further comment.
Number 20 Do you agree that we should be considering an approach to approving contingent expenditure if the proposed expenditure is material but has a high level of uncertainty?	**MEUG** A change to the IPP is possible for such expenditure but we are not convinced that is better than the status quo. Another feasible option is to shorten the length of RCP2 to say 3 years on the assumption that will then allow Transpower to better forecast currently uncertain large base Capex.	No further comment.
Number 21 Are there other factors that Transpower could have considered to improve the consultation process?	**Carter Holt Harvey** The consultation process carried out by Transpower included a number of steps in the process and provided sufficient time and provided sufficient information to allow customers to participate fully in the process. We think that there are no significant improvements that could be made.	No further comment.
Number 22 Are there any important and valuable aspects of consumer service quality overlooked in Transpower's consultation?	**Carter Holt Harvey** The consultation process seemed to identify the major areas that concern customers. One aspect that may not have been given sufficient attention is the method and frequency of reporting on results and other issues of importance to customers. This aspect is expanded upon in question 30.	See our response to question number 30 below.
Number 23 To what extent to the proposed measures reflect stakeholder feedback on aspects of Transpower's performance that customers' value?	**Carter Holt Harvey** In general, the proposed measures do reflect customer feedback as per para 2.3 of Transpower's document BR04.	No further comment.
	Meridian Meridian support revenue-linked grid performance and asset performance targets for RCP2. In particular they support: • inclusion of an HVDC 'energy availability' target, applying to both planned and unplanned outages; • setting the HVDC target at 98.5%, being an appropriately challenging target in relation to historic performance.	No further comment.

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Number 24 If the proposed measures do not adequately reflect customer demands, what additional measures do you consider would be most valuable to consumers (for example, energy not supplied, interruptions caused by AUFLS)?	**Carter Holt Harvey** The measure OM5 time on N security provides one good indication of the occasional increased loss of supply risk. Another useful measure could be the number of times/duration that special protection schemes are activated as this is often an indication that a part of the grid is under stress.	Special Protection Schemes (SPS) are implemented for many reasons, including: as an economic way to reduce generation constraints on the system; allowing lower cost generation to be securely dispatched; and to allow Capex to be deferred. The operation of an SPS to manage load is likely to be measured by the reliability performance measures. In cases where a customer has made a price quality trade-off, opting for a load management SPS rather than pay for upgrades to connection assets then we would not count the operation of the SPS in the reliability performance measures. We do not propose to have a specific performance measure around SPS operation in RCP2.
	Meridian In addition to the availability targets proposed, we encourage the Commission to consider the introduction of performance measures relating to market impact in RCP2. With the commissioning of Pole 3 and the upgrade of Pole 2 control systems complete, operation of the HVDC link will be more stable over the RCP2 period. It would therefore be an appropriate time to introduce market-based HVDC performance measures into the regulatory framework.	Performance Measures AP1 (HVDC availability), AP2 (HVAC availability) and OM4 (planned outage restoration times) are three measures that relate to market impact. We selected the HVAC circuits that have the greatest effects on market outcomes to form the basis of AP2. We intend to assess AP1 and AP2 during RCP2.
Number 28 To what extent do you consider that the *RCP2 targets* proposed by Transpower reflect the level of performance demanded by the customers?	**Carter Holt Harvey** A visual review of the bar graphs for GP1 targets for example can only leave one with the impression that the targets are soft. The most graphic example of this is for the high priority category, where the target will have been met very adequately for 5 of the previous 7 years. We consider that it is more appropriate, particularly for targets that have some significant performance outliers, to remove the years where the measure has been substantially above the average and will in any case exceed any target set. Then look at the remaining years and assess a suitable target based on average previous performance. Thus for the GP1 high priority example, the interruption target should more properly be 2-3 pa.	Our intention was for our long-term performance targets to be forward looking and not based on past performance. We believe a transitional framework, from past performance to the new long-term targets, is necessary and has been reflected in the RCP2 targets. At this point in time, we do not propose to change the individual targets for RCP2. If we don't improve our performance in respect of the targets, we are likely to experience a reduction in revenue over RCP2.
	MEUG Customers' needs will have been considered along with Transpower's ability to deliver. We accept there is a trade-off however we don't know (1) if long term targets (see Q19) are reasonable and (2) if sufficient stretch has been given to RCP2 targets proportional to the variance of current performance from best practice (see Q11).	Please see our responses to questions 28 (above) and 29.
Number 29 To what extent do you consider that the *long term targets* proposed by Transpower reflect the level of performance demanded by consumers?	**Carter Holt Harvey** The comment above applies to some of the long term targets. To set a single number long term target appears to imply that there is a target that cannot be improved upon. Continuous improvement is necessary for customers to stay viable and so we consider that this paradigm should be part of the setting of long term targets for Transpower. For long term performance targets, it may be more appropriate to apply a moving average trend target reduction (or increase in the case of availability) of for example say a 3% pa 5 year moving average reduction. This could apply to RCP2 and beyond.	As stated above, the proposed RCP2 targets form part of a transitional framework that will ultimately allow us to provide a more explicit cost/performance trade-off. In the interim our long-term performance targets are our best estimate of what these should look like. We will reassess these throughout RCP2 with a view to amending them as both we and our customers become more familiar with their implications for our investment decisions. We agree that continuous improvement in this area is important. Ultimately we wish to ensure that we are making appropriate investments on the Grid to meet our customers' expectations of performance and cost. Our planning lifecycle strategy (AM03) includes several improvement initiatives in this area. We intend to develop these during RCP2 to strengthen the link between asset expenditure, asset performance and the reliability experienced by customers.
	MEUG We don't know if these are equivalent to current or expected future world best practice; but they need to be.	We believe that developing targets that reflect our customers' expectations of cost and performance is consistent with 'best practice'.
Number 30 Do you consider that reporting on additional customer service	**Carter Holt Harvey** 1. See the comment on special protection schemes in Q24. 2. In addition, we consider that progress in many of the actions proposed in the	1. Please see our response to question 24 above. 2. We do not support having additional customer service measures in RCP2. Our annual

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measures would be appropriate, and if so, which measures would be most valuable?	report BR04 should be specifically reported on annually and some reporting measures should be reported on a more regular basis than annually. This reporting specifically with customers in mind could form a part of input to customer service related measures as noted in Para 6.13 in the issues paper a. Progress on actions to be reported on annually: could include (see para 2.6 in Transpower BR04) i. Refining reporting of time on N-security ii. Investigating power quality measures and momentary interruptions targets iii. Reporting on the financial impact of interruptions on customers (may also include work on improving the VOLL measure in conjunction with the EA) iv. Improved event reporting especially post-event interruption reporting v. Work carried out by the working group on power quality etc b. More regular reporting eg. quarterly: i. GP1, GP2, OM5, OM6	customer survey provides our customers the opportunity to provide feedback on these matters and others a. We will be providing annual reports on the RCP2 long-term performance measures and targets. We will be tracking some of the measures highlighted by Carter Holt Harvey and will include a general update on these in our annual regulatory reports. b. We will be looking at automating the reporting of our key measures, including making these available on our website so that interested parties can access up to date progress against targets.
Number 31 To what extent does the incentive rate appropriately reflect the cost to consumers of these interruptions?	**Carter Holt Harvey** The categorisation of POS does provide an improved first order view on the cost of interruption incidents to customers. The comparison against the present standard VOLL of $20,000/MWh appears to reveal that the present "at risk" sum of $10M pa is unreasonable at least as a starting point. However, as the purpose of this "at risk" sum is mainly to influence Transpower's behaviour, actions by Transpower as a result of reviewing the outcome "at risk" measures will likely lead to decisions that will require deployment of resources and possibly CAPEX or OPEX. For that reason, further work in refining the measure of cost of interruptions to consumers should be carried out to ensure that the signals are as accurate as possible. The work carried out by the EA and summarised in their reports on Investigation into the Value of Lost Load in New Zealand dated 23 July 2013 and 16 January 2012 provide some information that is an improvement on the standard VOLL. It is recommended that work is continued using the "Investigation into the Value of Lost Load in New Zealand: Guideline for conducting a VOLL survey" dated 23 July 2013 which should result in a more refined VOLL measure that will be a significant improvement on the present standard VOLL. This in turn should improve decision making by Transpower that relies on VOLL as input.	We have followed the work undertaken by the Electricity Authority to date. We are happy to work with the Electricity Authority on any further analysis undertaken in this area.
Number 32 What alternative sources of information may assist in evaluating the values proposed by Transpower?	**Carter Holt Harvey** See comment in Q31 above	Please see our responses to questions 31.
	MEUG The survey work by the Electricity Authority "Investigation into the Value of Lost Load in New Zealnd, Report on methodology and key findings" dated 23rd July 2013 would assist in evaluating the values proposed by Transpower	We will consider the applicability of material from the Electricity Authority in any future work on interruption costs.
Number 33 To what extent should Transpower be exposed to the cost of the interruptions to consumers?	**Carter Holt Harvey** At the very least, Transpower should understand the size of the financial impact of individual interruptions on consumers, and so it is heartening that they are considering reporting on this. They should be encouraged to find ways to do this during RCP2 (see	See question 31.

Commission Question	Stakeholder Submission	Transpower Response
	comments in Q30). This could be achieved by • More definitive work on VOLL as suggested in Q31 • Obtaining in a systematic way, costs of specific interruptions on individual large consumers. Once this has been done and some results and trends obtained, then the possibility of more financial exposure of Transpower to the cost of interruptions could be considered.	
Number 34 To what extent should individual consumers be compensated for Transpower's failure to meet grid output measure targets, and how?	**Carter Holt Harvey** We consider that most consumers would prefer to have no interruptions than get compensation for them. We believe that the proposed incentive/penalty system (with appropriate improvements) should be bedded in during the RCP2 period before the question of compensation to consumers is considered.	No further comment.
Number 35 To what extent do you consider this range of performance is appropriate?	**Carter Holt Harvey** We note that the caps and collars appear to have been set equidistant from the targets. This may be satisfactory for measures that do not have significant volatility such as HVDC and HVAC availability. However, for measures that have had significant downside (from a consumer point of view) volatility such as in particular interruptions for high priority, important and standard POS, then setting cap and collar equidistant from the target is not appropriate. In those cases, the collar should be set higher, or the target should be moved closer to the cap. For example, the GP1, high priority perhaps the cap should be remain at one, the target changed to 2 or 3 with the collar remaining at eight.	It is our view that using equidistant caps and collars and a linear relation between them is the best approach to use for RCP2. It has the advantage of being simple and straight forward as a revenue incentive. Our understanding of the relative consequences of being above or below the target is limited at this stage. As our understanding of the measures and their incentive effects improves we may consider the use of 'asymmetric' caps and collars. Overall, we believe our approach is appropriate for measures that are still relatively new and may be subject to further development.
Number 36 Is it appropriate to include these other aspects of service quality in the grid output adjustment, and if so, how should Transpower be incentivised in relation to performance in these areas?	**Carter Holt Harvey** Mandated regular reporting of planned actions and other measures as suggested in Q30 does provide some incentive to achieve suitable results in these areas. It may be appropriate however to include in the financial incentive/penalties a factor that is measure of customers' view on perceived service from Transpower that might encompass the measures and planned actions that do not at present have incentive/penalty targets.	We do not support having additional financial incentives based on "views on perceived service" as part of the revenue linked measures for RCP2. We believe that it is preferable to restrict such incentives to more objective measures. Our annual customer surveys provide our customers with an opportunity to provide feedback on these more subjective matters.
	Meridian We support the "other measures" identified by Transpower, although we note that these are not revenue-linked. We think the Commission should consider revenue-linking these measures (even if revenue at stake is low) in order to ensure there is some incentive on Transpower to achieve the proposed targets (noting in some cases targets would need to be set).	Our preference is to ensure that performance targets linked to financial incentives are sufficiently robust. We note that for some of the new performance measures we are unable to set sufficiently robust targets as we do not yet have enough experience with the measures at this stage. We intend to learn more about such measures by reporting on them during RCP2.
Number 37 What is your view on the materiality of Transpower's exposure to the new indemnity obligations raised under the CGA?	**MEUG** In a workably competitive market environment no business could immunise itself from some risk of exposure to CGA indemnity obligations. This therefore creates an incentive on managers of those businesses to be cognisant of that risk and decide how best to manage it accordingly. We see no reason why Transpower should be treated any differently.	In a workably competitive market, all else being equal, prices would increase to the level necessary to allow participants to recover on average the expected costs of mitigating the impacts of such indemnity obligations. In our context, the regulatory mechanisms should provide compensation for the expected, efficient costs of providing the CGA indemnity. This could take the form of a self-insurance allowance or their treatment as a recoverable cost.

Commission Question	Stakeholder Submission	Transpower Response
Number 38 Do you have a preferred view on how Transpower's exposure to the (at this time) unknown cost impacts of the amendment to the CGA should be treated for RCP2?	**MEUG** The onus to forecast the number of claims and likely aggregate value should be on Transpower. The Commission can then test if that assessment is reasonable.	As noted above and discussed in more detail in our submission on the Issues Paper, we believe the options are either an additional self-insurance allowance or recoverable cost treatment. We appreciate the Commission's concerns about adopting a policy that simply neutralises the indemnity. To assist the Commission in developing an appropriate approach, we intend to develop and submit a proposed self-insurance allowance as an addition to our previous Opex proposal.