Dane Gunnell (Manager, Price-quality Regulation)
Commerce Commission
c/o regulation.branch@comcom.govt.nz

28 February 2019

Dane

Transpower's individual price-quality path for the next regulatory control period

Mercury appreciates the opportunity to provide input to the Commerce Commission on Transpower's proposed RCP3 price-quality path. No part of our response is confidential.

We have focused our response on Transpower's proposed grid output measures and quality standards only. Our answers to the specific consultation questions are outlined in the section that follows this covering letter.

Please contact me (raj.bhana@mercury.co.nz or +64-9-308-8293) if you wish to discuss any details of our responses further.

Yours sincerely,

Raj Bhana

Senior Transmission Advisor

Level 3, 109 Carlton Gore Road, Newmarket 1023
PO Box 90399, Auckland 1142

New Zealand

PHONE: + 64 9 308 8200
FAX: + 64 9 308 8209

mercury.co.nz

Transpower's grid output measures and quality standards

5.81.1 Transpower has proposed seven service performance measures, plus asset health measures in five asset classes.
5.81.1.1 In your view, do the proposed measures cover the main dimensions you expect to see in measuring Transpower's performance in RCP3?

While these measures cover reliability well, in our view, they should be better constructed to provide overall benefit to New Zealand consumers through more efficient market outcomes. For example, we would like Transpower to be better incentivised to prevent the spill of renewable generation, which can have a high economic consequence.

5.81.1.2 Is anything missing?

Mercury believes our response above can be achieved directly through market efficiency measures (lost load, grid congestion, and grid losses). Alternatively, within the proposed framework this can be achieved by placing more importance (more stringent reliability measures) on points of service/assets that connect large renewable generation sources to the grid.

5.81.1.3 Do all of the proposed measures add value for consumers?

Yes. These measures promote both short-term and long-term reliability.

5.81.2 Transpower considers that the proposed service performance measures should be challenging but realistic, and it notes that the RCP2 targets have proved too challenging.

5.81.2.1 Do you agree that it is appropriate to move away from aspirational targets to targets that are based on historical performance?

A slight concern with this approach is that historical performance, and the measures, could decline in the long term. A potential fix would be to link measures with consumer benefits, e.g., have measures of lost-load, grid congestion, and grid losses.

5.81.2.2 If so, is there any additional reporting that you would want disclosed each year in RCP3 to monitor how Transpower is tracking against its targets?

Specific points/assets are listed in the PoS categorizations (GP1 and GP2) and HVAC availability (AP2). Mercury believes the performance of each of these individual points/assets are reported on annually. Furthermore, we believe it would prudent to report on any other points/assets that are "close" to being included in the PoS and HVAC asset lists – this can help to identify a need to change an included list item or categorisation.

5.81.3 Transpower has proposed increasing total revenue at risk in its proposed RCP3 performance measures from the 1.5% of the forecast allowable revenue that applies in RCP2 to 2.8% of forecast revenues in RCP3.

5.81.3.1 Do you agree that increasing the proportion of revenue at risk for the service performance measures and asset health measures is appropriate?

Mercury notes that this potential increase highlights the need to link performance incentives to consumer benefits as directly as possible.

5.81.3.2 If so, why?

No comment.

5.81.4 We are considering whether we should determine additional reporting requirements that would apply if Transpower breaches a quality standard in RCP3 or if its performance on a performance measure goes outside of the expected range (ie, if Transpower underperformed a measure such that the reported value is below the collar value).[163] That reporting might include, for example, the type of information that we currently seek from industry experts when a breach currently occurs in a regulated sector, but in this case a publicly available report would be proposed by Transpower.
5.81.4.1 Do you consider that such a reporting requirement would add value for Transpower's customers?

Yes.

5.81.4.2 Are there any specific features of such reporting that you would want us to consider?

Any such report should include an investigation into the cause of the shortfall, an assessment of the impact to consumers, and (if necessary) detail proposed/taken actions to mitigate future shortfalls.

5.82 We also welcome your views on the following specific design features of the measures that Transpower has proposed:
5.82.1 Each of the proposed RCP3 revenue-linked measures is a symmetric incentive mechanism, with target, cap and collar values. The result is that good performance against a measure rewards Transpower at the same rate that under performance is penalised, with limits on the extent of the financial impact being applied at the cap or collar respectively.
5.82.1.1 Do you agree that the service performance measures and the asset health measures should be symmetric incentive mechanisms in all cases?

No comment.

5.82.1.2 If not, which measures could we consider for asymmetric treatment (i.e., possibly only reward good performance, or only penalise underperformance)?
5.82.2 Do you have any comments on the target, cap, collar or other values proposed by Transpower for the RCP3 service performance measures or for the asset health measures (for example, the four-hour buffer in proposed measure AP3)?
For AP3, Mercury appreciates the reduction to a 2-hour buffer in response to stakeholder comments.

5.82.3 In RCP2 we set Transpower's quality standards at the same target values as the revenue-linked grid output measures.

5.82.3.1 In respect of the proposed revenue-linked service performance measures GP1, GP2, AP1 and AP2, should the applicable quality standards for these measures be the collar values, or something else? If so, why?

No comment.

5.82.4 Transpower has proposed that the asset health indices for five asset classes should be revenue linked.
5.82.4.1 Do you agree that the asset health measures should be revenue linked?

No comment.

5.82.4.2 Should the applicable quality standards for these measures be the collar values, or something else?

No comment.

5.82.4.3 If so, why?

No comment.

5.82.5 Transpower has proposed that measures AP3, AP4 and CS1 should have no revenue at risk. However, it appears that proposed measure CS1 is a sufficiently mature measure that it could be set as a non-revenue linked quality standard.
5.82.5.1 Do you consider that this proposed non-revenue linked measure should be set as a quality standard?

No comment.

5.82.6 Transpower has proposed that measures AP3 and AP4 should be trial measures for RCP3 that are not treated as quality standards. These proposed measures are new and do not have a sufficient track record to justify making them quality standards this time around.
5.82.6.1 Do you agree that these proposed service performance measures should be output measures for reporting purposes only?

Yes.

5.82.6.2 If so, what reporting features would you like to see each year to show the effectiveness of the trial measures?

For AP3, by asset, return-to-service times for every outage.
For AP4, by asset, communication-of-extension notice-times for every extension.

5.82.7 We are considering whether to include a form of normalisation mechanism in the proposed grid performance (reliability) measures to deal with, for example, the impact of a force majeure event at our discretion.
5.82.7.1 Do you agree that we should consider such a normalisation approach?

Yes.

5.82.7.2 If so, what features should that normalisation mechanism include?

Mercury believes that the mechanism should be determined and applied by the Commission or an independent body. Additionally, the normalisation reason, method, and impacts (incentive payments before and after normalisation) should be reported publicly.

5.82.7.3 What features should not be normalised for this purpose?

None.

5.82.7.4 What limitations, if any, should there be to the Commission's annual discretion in this respect?

None.

5.82.8 There are two main things that could influence the results of the proposed asset health measures: Transpower's management of the assets and Transpower's work on improving the state of knowledge about its assets.
5.82.8.1 Do you agree that there should be a mechanism to recalibrate the proposed asset health targets during RCP3 (either annually or periodically) to take account of the ongoing work that Transpower is proposing to continually improve the asset data used in the measures, so that the proposed measures reward Transpower principally for its management of the assets?

Yes.