

Submission to the Commerce Commission

Concerning

Electricity Distribution Services Default Price-Quality Path Draft Determination 2015

Background

1. Network Tasman (NTL) appreciates the opportunity to submit on the Draft DPP Determination.
2. Network Tasman is also member of ENA and the PwC EDB Group and we support the broader submissions put forward by each of these parties.
3. NTL has committed to the purchase of spur assets from Transpower and the transaction is scheduled to take place in the year ending 2015. The transfer of these assets will have a material impact on NTL's business both in respect of financial performance and quality outcomes. The contractual purchase commitment was entered into assuming that the regulatory framework and incentives for these transfers would remain relatively stable from one regulatory period to the next.
4. In this submission NTL 's primary focus is on the proposed amendments to the regulatory framework for TPNZ spur assets transfers in the regulatory control period commencing 1 April 2015 (RCP3).

Spur Asset Transfers

5. NTL acknowledges the Commission's proposal to include the RAB values and the forecast Capex in the DPP reset process for those spur assets scheduled for transfer before 1 April 2015.
6. NTL supports Commission's proposal to include a capex wash-up factor adjusting DPP revenue allowances for differences between forecast and actual 2015 capex provided:
 - the factor includes differences between forecast and actual capex on spur asset transfers and
 - the wash up factor is symmetrical, ie. Is able to take on either positive or negative values.

The ex post capex adjustment factor is important for EDB's engaged in asset transfers before 1 April 2015 and who have provided estimated data in the March 2014 53ZD

- request because these asset values remain subject to final determination at the time of transfer.
7. NTL notes the Commission has provided no explicit opex allowance for transferred assets included in the opening RAB. It is proposed Opex allowances be driven forward off the opex levels disclosed by EDBs in the FYE 2013. This base year opex allowance may not include any incremental opex provision for spur assets transferring after 31 March 2013 and may be inadequate for those transferring in the 2013 year.
 8. Additionally, as the DPP model currently stands, any spur assets transferring in 2014 or 2015 will not attract any network scale allowances in terms of circuit km factors in the forward modelling of opex allowances for RCP3. However we acknowledge the 5 year avoid cost allowance within recoverable costs under the IMs may provide adequate offset for this deficiency.
 9. NTL supports the use of a recoverable cost allowance for avoided transmission costs on spur asset transfers for the initial 5 year period. It provides a contribution to the EDB's building block costs necessary to support these newly acquired assets.
 10. The Commission is proposing to calculate the recoverable cost allowance from the initial / first years avoided connection charges and then to maintain that amount in nominal terms thereafter. While acknowledging this provides certainty it will lead to a miss-estimate of the EDB's underlying annual avoided connection cost to the extent that Transpower adjusts its connection charges from year to year.
 11. The Commission's proposal only focuses on the avoided transmission connection charges in the initial year of transfer to the exclusion of all other avoided costs such as avoided interconnection charges which may arise over time and support the economics of the transfer. Given how Capacity Measurement Periods operate within the TPM, it is improbable avoided interconnection charges will accrue in year one of a transfer. These benefits will be lagged by between one and two years before they become available to an EDB. Under the Commission's proposal it appears they will not be able to be included in recoverable costs in the initial 5 year period therefore won't support the economics of the transfer. NTL regards this to be contrary to the way the IMs have operated in RCP2.
 12. Consequently NTL supports the PwC proposal that:
 - EDB's be able to calculate all avoided costs of transmission arising from asset transfers on a year by year basis for each of the 5 years post transfer and in a manner that properly reflects TPNZ's relevant disclosures of pricing year data
 - Any new capex spent on the transferred assets in the first 5 year period be supported by similar avoided charge calculations using TPNZ pricing year data
 13. NTL also supports the PwC position with respect avoidance of retrospective adjustments to the allowances applying to transfers already in place prior to the commencement of RCP3.
 14. The Draft determination is largely silent on how spur assets transfers will be dealt with in terms of EDB quality / reliability measures and how this will be reflected through into the quality standards and incentives the Commission is proposing for RCP3. Given the

Commission intends placing EDB revenue at risk under the proposed new reliability / quality standards this matter requires resolution.

Quality Targets and Incentives

15. NTL notes the Commission's proposal to shift the quality /reliability component of the DPP from a Pass/Fail approach to one that is incentive based and provides EDB's with rewards and penalties via DPP revenue allowance adjustments.

16. While NTL regards the current Pass / Fail regime as relatively ineffectual and change is warranted we hold a number of concerns regarding the proposed incentive based scheme. NTL's position is as follows:

- NTL acknowledges a quality scheme is a necessary part of the DPP regime and supports the continued use of EDB SAIDI and SAIFI data as service quality measures
- NTL agrees that historical SAIDA and SAIFI data be used to establish quality targets and measures
- NTL agrees this data should be normalised for major events substantially out of the control of EDBs so underlying reliability performance and trends can be ascertained
- NTL is not opposed in principle to the symmetrical capped & collar scheme proposed by the Commission that places 1% of MAR at risk
- However NTL regards that the scheme as proposed will provide a set of relatively arbitrary rewards and penalties for outcomes that are in many instances primarily outside the control of the EDB. The outcomes will be strongly correlated to weather variations and instances of foreign interference in the network (eg vehicle accidents).
- Because outcomes are likely to be relatively arbitrary and revenue penalties and rewards are modest NTL does not consider the scheme will lead to any discernible difference in quality and reliability outcomes over time.
- Additionally the scheme as proposed is silent on how outage occurrences on spur assets subject to transfer between TPNZ and EDBs will be incorporated within the scheme. Given the transferred assets are at upper network level their outage profiles will potentially have a material impact on many EDB's historical quality and reliability data.
- For these reasons NTL cannot support the scheme in its current draft form.

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