



**Submission to the Commerce Commission on
2010-15 Default Price-Quality Path Reset**

Electricity Volume Projections

Consultation Paper

21 September 2011

1. Horizon Energy Distribution Limited (“Horizon Energy”) welcomes the opportunity to make this submission to the Commerce Commission (“Commission”) in response to the *Electricity Volume Projections Consultation Paper* (“Consultation Paper”) issued 15 September 2011.
2. In general Horizon Energy considers the Bay of Plenty regional growth projections released 15 September 2011 by the Commission within the file *Transpowers Draft Regional Electricity Forecasts* to be an improved estimate of the growth that our network will experience for the remainder of this regulatory period. However we maintain the view presented in our submission¹ to the Commission (and in our subsequent cross submission²), that supplier specific actual reported (from Information Disclosures) electricity volumes should be used for calculating throughput projections to inform the price reset for this regulatory period.
3. We appreciate the Commission is attempting to reconcile concerns expressed within various submissions on the use of the Electricity Authority (“EA”) projections³ (“EA throughput projections”) to inform the price reset for this regulatory period. An issue the Commission has noted, presented by a number of submitters including Horizon Energy, was that the EA throughput projections were out-of-date. However not only did Horizon Energy consider the EA throughput projections to be based on irrelevant historical information, we also submitted that the use of regional projections is not suitable when looking for a proxy for growth in individual supplier networks. To this end, we had submitted an approach that would enable the Commission to forecast electricity volumes at the specific individual supplier level for the remainder of this regulatory period, by extrapolating the trend within historical supplier specific publically available data from the information disclosures. This would allow the Commission to further develop its views on which approach to implement for use from 2015 onwards. Horizon Energy again submits to the Commission to consider this approach and the merit in meeting the low-cost purpose of Default Price-Quality (“DPP”) regulation.
4. We have a number of concerns with the Commission’s newly proposed approach to use regional electricity volume forecasts prepared by Transpower New Zealand Limited (“Transpower”). We consider Transpower’s forecast to not be fit for the purpose of informing this price reset and will structure the remainder of this submission as being;
 - a. Demand forecasting assumptions to provide volume projections
 - b. Long term requirement of forecasting
 - c. Prudence over accuracy
 - d. Regional drivers for real GDP and population
 - e. Final forecasts may not resemble draft
5. Horizon Energy is concerned that the Commission is again proposing the use of a demand forecast, for the purposes of obtaining a proxy for ‘throughput’ (volume) growth. The EA throughput projections provided for in the Commission’s *Draft Decisions Paper 2010-15 Default Price-Quality Path Reset of Starting Prices, CPI Adjustment and Other Amendments* were a product of demand forecasting, rather than forecasting electricity

¹ <http://www.comcom.govt.nz/assets/Electricity/2010-2015-Default-Price-Quality-Path/Extension-to-submission-deadlines-for-SPA-Update-Paper/Horizon-Energy-submission-on-draft-decisions-for-resetting-2010-15-DPP-24-August-2011.PDF>

² <http://www.comcom.govt.nz/assets/Electricity/201015-Reset-DPP/Xsub-on-Reset-of-Starting-Prices/Horizon-Energy-Cross-Submission-on-Draft-Decisions-for-Resetting-2010-15-DPP-5-September-2011.PDF>

³ 2009 Electricity Demand Forecasts Prepared for Electricity Authority by Brian Kirtlan, 16 December 2009

volumes as such. In both instances the Commission has provided projected figures without any workings on how these have been derived. Both sets of projections reference demand forecast papers that provide detail on demand (and peak demand) projections but fail to provide the necessary detail on the volume projections for suppliers to gain a level of comfort that one would expect from the Commission. In addition we note concern that the design principles Transpower has listed within its May 2011 demand forecast paper⁴ (“demand paper”), seem at odds with the Commission’s intended use of these projections. Paraphrasing Transpower in section 1.4 “**the forecast must describe a range of possible outcomes...the forecast must be prepared for grid planning activities.**”⁵ Horizon Energy submits the forecast of choice should provide some certainty of outcome, rather than a range, due to the relatively short time frame remaining in this regulatory period. Furthermore, we note within section 6.2 of the New Zealand Institute of Economic Research (“NZIER”) *Electricity Demand Model Review* report to Transpower, there is implicit criticism for Transpower’s forecast modelling to provide accuracy of results in the short term up to 5 years.⁶

6. Transpower has presented in its demand paper the rationale for producing the forecast is “to set out our current view of demand growth over the next 30 years (with a focus on the next decade).”⁷ Horizon Energy questions whether this makes the use of this forecast fit for purpose. The Commission is proposing to use a forecast that is clearly built around the requirements for long term planning, well beyond the current regulatory period for which these projections are required. The Transpower forecast utilises four high level forecasting models (“HLFM”) to deliver projections from 2010 through to 2030. As part of the modelling there is a large amount of variability built into the projections that result in some general trending being applied. We submit that the Commission be cautious in relying too heavily on modelling that Transpower is using develop long term grid strategies, when the actual requirement for this DPP reset is to present a projection over the next three years. Transpower has stated in section 1.3.2 “Typically a prudent forecast would be used – i.e. one that is high on the distribution of uncertainty.”⁸ This prudence through over estimation of capacity requirements, and ignoring lower load periods, is demonstrated in Figure 10 of the demand paper.⁹
7. Horizon Energy supports Transpower’s P90 approach for capacity planning, and acknowledges the Commission has taken a P50 approach for the volume projections. However this does not reflect actual consumption at the supplier specific level. Our view is similar to the Commission’s and the NZIER’s, in that a peak demand-volume relationship is tenuous. Peak demand forecasting for ensuring security of supply by way of grid investment and development requires a long term approach. This is completely at odds with the Commission’s proposed use of this forecast to provide short term projections as a proxy for electricity volumes through suppliers’ GXPs.
8. Horizon Energy notes that Transpower has used GDP and population projections from the NZIER and Statistics New Zealand respectively. We submit concern following mention within appendix A.5 of the demand paper, that there is considerable uncertainty about both quantities. Population projections have been randomised at a national level, using low and high forecasts. While GDP forecasts are represented at a regional level. As with the EA throughput projections, we question how appropriate a top down approach based on drivers at the national and regional level are for determining supplier

⁴ http://www.gridnewzealand.co.nz/f4847_54542693/transpower-demand-forecast-May-2011.pdf

⁵ *Ibid.*, p. 6.

⁶ http://www.gridnewzealand.co.nz/f4847_54542833/nzier-review-of-transpower-forecast.pdf, p. 18.

⁷ *Ibid.*, p. 3.

⁸ *Ibid.*, p. 6.

⁹ *Ibid.*, p. 18.

specific growth within individual networks. We also make note here of the NZIER report¹⁰ commissioned by Wellington Electricity Lines Limited (“WELL”) to provide alternate real revenue growth forecasts based on up-to-date drivers, and the extent to which it was demonstrated these drivers have a material impact on the forecast outcomes.

9. Horizon Energy submits concern as to the Commission’s intention to use the final Transpower electricity volume projections that will only be published in early October 2011. Considering the deadline for the Commission to issue the Final Decisions Paper is 20 October 2011, we question how appropriate it is to rely upon Transpower to deliver within these timeframes. There is no certainty that the final forecast that Transpower produces will reflect the same results as the Commission has provided by way of this draft forecast. The issue this raises is that we are dealing with an unknown that will materially impact the quantum of the Commission’s final decisions reset, with no opportunity to question how or why these potential differences arose. We raise the point here whether Transpower will now factor in the enlarged scope for the use of this forecast. We would not want Transpower to finalise these forecasts in haste simply to meet a deadline the Commission would now be imposing upon them, without the thoughtful consideration of the newly established use of these forecasts.
10. We remain unconvinced as to the approach the Commission intends to follow to use historical electricity volumes at the GXP level to inform weightings on regional projections to arrive at appropriate forecasts for supplier specific networks. This really only addresses the regional aspect of growth when a supplier’s network overlaps multiple regions. It does not address variations in growth within regions at the GXP level. As we have noted in our submissions, the use of regional projections is problematic for our network, and a top down weighting approach does not mitigate obvious errors when the Commission is proposing growth at odds with the historical levels experienced within the Eastern Bay of Plenty sub-region and more specifically with our network.
11. As noted within our cross-submission, in support of submissions from the Electricity Networks Association and WELL, we again submit for the Commission to consider the introduction of an adjustment to the notional allowable revenue formula to compensate for any under/over recovery in the remainder of this regulatory period. This is particularly relevant as the Transpower forecast has not been prepared to provide throughput forecasts for the intention of informing the price rest of this DPP period.
12. We again urge the Commission to consider the use of historical supplier specific actual reported (from Information Disclosures) electricity volumes to extrapolate the trend so as to provide throughput projections to inform the price reset for this regulatory period. This would provide greater transparency, credibility and certainty of outcome to all suppliers, until such time as the Commission develops its thinking on which approach it intends to use for next regulatory period (2015) reset.
13. Thank you for considering this submission. Please find contact details below to discuss any of these matters further.

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¹⁰ <http://www.comcom.govt.nz/assets/Electricity/201015-Reset-DPP/Submissions-on-Reset-of-Starting-Prices/Wellington-Electricitys-NZIER-submission-on-draft-decisions-for-resetting-2010-15-DPP-24-August-2011.pdf>