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Submission on Process & Timetable for Developing the Information Disclosure Regime

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1 Introductory Comments

The original purpose of the existing information disclosure requirements was to create a central pool of reasonably up-to-date data that could be used by customers and others to monitor individual line company performance under the system of light-handed regulation that has operated until recently.

The new regulatory regime imposed on lines companies by the legislative changes of 2001, coupled with the additional constraints and requirements about to be imposed under legislation covering the Electricity Commission and its rules, and the forthcoming distributed generation facilitation regime, mean that light-handed regulation has been largely superseded. We therefore believe that, if information disclosure is to be retained, it should be adapted to meet any needs associated with the new regulatory system rather than those of one that has now vanished.

2 Customer Priorities

The Commission has gazetted a requirement – the Commerce Act (Electricity Lines Thresholds) Notice 2003 – to:

- (i) properly advise...(end use) customers about the price-quality trade offs available to them in relation to the goods and services provided by the lines business; and
- (ii) consult (or ensure that another person consults on its behalf) with its customers about the quality of goods and services that they require, with reference to the price of those goods and services; and
- (iii) properly consider the views expressed by customers during and after that consultation; and
- (iv) adequately take these views into account when making its asset management decisions.

This process creates a mechanism which could enable customers to be consulted on the type of information disclosure they require, and to also express views on the detail and form of such information to ensure that it is accessible and useful to them.

3 Company Priorities

Lines companies may also find information released by their peers useful to measure their own relative performance, and to identify any outlying trends in their own businesses (such as higher than average outages). While informal data

exchanges and jointly undertaken sampling processes would probably be adequate to meet such company needs, if data is to be disclosed anyway through a formal Commission process then there is probably merit in ensuring that this data addresses such company priorities.

4 Regulatory Priorities

The Commission's regulatory requirements for data are covered the above-mentioned gazettal, notably in section 7 which relates to 'Information Requirements'. Additional disclosure requirements for lines companies are covered in detail in the *ODV Handbook* exercise, which we have submitted on separately today. If the Commission requires further information in order to undertake its regulatory processes then it has ample legislative capacity to require this to be disclosed.

We note from the acting Chair's comments in the Commission's latest annual report that the growing workload is putting increasing pressure on the Commission which may contribute to a reduction of enforcement activity. The development of specific information disclosure requirements in accordance with the process and timetable provided by the Commission will mean commitment of stretched Commission resources that we believe could be more usefully engaged in other work.

5 An Industry-Led Disclosure Regime

On the basis of the points made above, we recommend that the Commission replaces the process and timetable for developing an information disclosure regime with a requirement for the lines industry to develop such a regime itself, based on the following process:

- A set of principles covering issues that the Commission considers relevant to information disclosure. As a first step, we would like the Commission to provide a discussion paper on any such principles, and to invite comment.
- Customer priorities to be established through the process of consultation covered by section 7 of the gazettal, perhaps using a standardised consultation format that could be agreed with the Commission.
- Lines industry priorities to be determined by consultation among companies, with the Commission kept fully informed of progress.

This approach would be consistent with the 'industry solutions where possible' processes that the Electricity Commission Chair has endorsed. It would also recognise the fact that the lines industry is being required to consult with end-use customers, and make effective use of that requirement.

6 Concluding Comment: Terminate the Old Requirements?

Data for 2002-03 from the existing information disclosure regime appears to have been flawed by an anomaly in the disclosure requirements (see the report from Brian McGlinchy, engineering consultant, annexed to this submission). Accordingly there is an added case for a clean break with the past from 2004. The existing requirements could be kept in place through next year but this would probably achieve little, given the disruption to time series that has occurred, and the pointlessness of continuing with a process designed for a regime that has been superseded.

Alan Jenkins
Chief Executive

ANNEX

Reliability of Electricity Distribution Networks Effects of Time-Weighting of Data

1. Introduction

The amendment to the Information Disclosure Regulations made in 2000 (2000/118) has modified the requirements for reporting data from merged companies. While the concept has been in existence since the original regulations, this amendment has produced a widespread anomaly in the data for 2002/03. Prior to this regulation, when there was a merger, it usually happened at the end of a financial year so there was no need to invoke this regulation. The sale of United Networks Limited (UNL) and Otago Power Limited occurred part way through last financial year so this regulation has had to be used in the reporting. Details of the information affected is given below. In general what is required is to take the original parameter as owned by the buyer and to add to it the time-weighted proportion obtained from the company being sold.

Example: Company A owns 1,000 km of line. It purchases Company B which owns 800km of line. The purchase takes place 7 months into the year. The regulations require Company A to base its performance data according to the formula:

$$1,000 + (7/12 * 800) = 1,000 + 467 = 1,467\text{km.}$$

The new company thus bases its performance on 1467km of line. Taken in isolation if the count of faults is similarly derived it should produce a meaningful result. However, because Company B no longer exists or has any residual reporting responsibility its information escapes the reporting process. In a mathematical sense, all else being equal, the total length of lines reported has reduced by $(800-467) = 333$.

When this adjustment is applied to all the indicators both the national data and the data for any company involved in a merger becomes at best dubious. It will also affect next year's data as well when a full year of the merged company is reported. Because of the "loss" of some data, the national total for each measure is also affected. This is particularly important since UNL was such a large company by NZ standards.

Some examples of the impact of this are given in para 4 below

2. Policy Issues

There are policy issues as well as statistical ones. As is well known, the Commerce Commission and/or the new Electricity Commissioner are to look at

quality issues as a basis for its regulatory regime. This is to commence with the data disclosed for year ending 31 March 2004. Based on the 6 June 2003 Policy Statement from the commission they intend to “investigate” companies where there has been a significant deterioration in quality as measured by SAIDI and SAIFI (para 82) and also following a merger they will assume the performance measures from the purchased company now apply to the merged entity (para 87). The report also states that the definitions in the existing regulations will be the basis for reporting (para83).

3. Effects of Time-weighting

The data reported for 2002/03 appears to show that performance has deteriorated for the companies that purchased parts of UNL. Further analysis or comment from these companies would be useful as it is not clear what a full year’s data would look like. One would expect all NZ to show results similar to the previous level.

One further problem that was unexpected by the writers of the regulation is that the data for the company before the merger is not being reported. This has resulted in some 230,000 customers and 8,600 km of lines being unaccounted for. For this reason the totals for all NZ are not able to be compared with last year.

4. Parameters affected

The amendment of 2000 requires the following items to be time weighted:

(a) to (f) are financial indicators which are beyond the scope of this note (But not necessarily beyond implication when the Commerce Commission regime commences).

(g) total customers

(h) system lengths (lines & cables of all voltages)

(i) transformer capacity

(j)- (n) are sub sets of (h)

It also requires maximum demand to be calculated by a similar but totally illogical process.

The quantities of energy delivered are to be reported as if the merger had taken place at the beginning of the financial year.

The reliability indicators SAIDI, SAIFI, and CAIDI are all based on the number of customers. Thus for the companies involved in mergers and for national totals all these figures must be viewed with caution and will certainly not be comparable with either the previous year or the next year.

Also all the indicators requiring faults per 100km of line to be reported will be similarly affected.

Three examples are given below, all of which show the illogical increase in results for the past year.

NZ totals	2002/03	2001/02	2000/01	1999/00
SAIDI Overall	160.4	128.0	134.4	130.1
SAIFI Class C	1.86	1.55	1.66	1.65
11kV O/H lines faults per 100km	10.21	8.23	9.44	8.26

Removing all the merged companies was also considered but did not provide a conclusive result. This is probably because UNL, Vector and Powerco are such a large proportion of the total.

6.1.1 Conclusions.

From a pure statistical view point this is a disaster and will take several years to work through a time series analysis. This could be corrected by asking the affected companies to provide totals for the full year assuming they had owned their part since the beginning of the year. (Marlborough Lines have done this but the data was not used).

From a pragmatic point of view it will make it difficult for any regulatory authority to make judgements when it examines trends in the performance of any company that has acquired assets partway through a financial year. This leads to a conclusion that no specific action should be taken by the line companies.

Brian McGlinchy

Engineering Consultant

30 September 2003