

## **Notification of Determination of Default Price-Quality Regulation Applicable to Electricity Distribution Businesses**

The Commerce Commission (“Commission”) gives the following notice under Part 4 of the Commerce Act 1986 (“Act”).

### **Notice of Determination**

1. On 27 November 2019, the Commission issued the *Electricity Distribution Services Default Price-Quality Path Determination 2020* [2019] NZCC 21 (“EDB DPP Determination”).
2. The EDB DPP Determination sets out the default price-quality path applicable to regulated suppliers of electricity distribution businesses (EDBs) for the regulatory period 1 April 2020 to 31 March 2025. The determination applies to all non-exempt EDBs (EDBs other than consumer-owned EDBs exempt under section 54G(2) of the Act), except it does not apply to Powerco Limited or Wellington Electricity Lines Limited until after the expiration of their current respective customised price-quality paths (CPPs).
3. The EDB DPP Determination is made in accordance with the Commission’s input methodologies applicable to EDBs, as specified in the *Electricity Distribution Services Input Methodologies Determination 2012* [2012] NZCC 26.
4. This notice summarises the EDB DPP Determination in accordance with section 52P of the Act.

### **Summary of the Determination**

#### *Application*

1. The EDB DPP Determination applies for the regulatory period 1 April 2020 to 31 March 2025 to the following non-exempt EDBs:
  - Alpine Energy Limited
  - Aurora Energy Limited
  - Centralines Limited
  - Eastland Network Limited
  - Electricity Ashburton Limited
  - Electricity Invercargill Limited
  - Horizon Energy Distribution Limited
  - Nelson Electricity Limited
  - Network Tasman Limited
  - Orion New Zealand Limited
  - OtagoNet Joint Venture
  - The Lines Company Limited
  - Top Energy Limited
  - Unison Networks Limited
  - Vector Limited
2. The EDB DPP Determination does not apply to:
  - Powerco Limited until after the expiration of the *Powerco Limited Electricity Distribution Customised Price-Quality Path Determination 2018* [2018] NZCC; and
  - Wellington Electricity Lines Limited until after the expiration of the *Wellington Electricity Lines Limited Electricity Distribution Customised Price-Quality Path Determination 2018* [2018] NZCC 6.

#### *Price Path*

3. The EDB DPP Determination sets out the starting prices that apply for the regulatory period for each non-exempt EDB, other than those on CPPs, (the “net allowable revenues” each non-exempt EDB can earn in the first year of the regulatory period) and the “annual rate of change” in revenues a non-exempt EDB can charge over the regulatory period. The annual rate of change generally applicable to all non-exempt EDBs for

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the regulatory period is CPI-0%. The determination does not set any alternate rates of change.

### *Quality Standards*

4. The EDB DPP determination sets out three quality standards that apply to non-exempt EDBs for the regulatory period. They are:
  - an annual quality standard for “unplanned interruptions” to avoid material deterioration of network performance;
  - a quality standard for “planned interruptions” that is set over the regulatory period to eliminate any perverse incentives for non-exempt EDBs to avoid network investment or maintenance, and give non-exempt EDBs greater flexibility on the timing of work requiring planned interruptions; and
  - a new extreme event quality standard to incentivise non-exempt EDBs to minimise the likelihood of high impact and low probability events as well as to mitigate the scale of them, as these have a large impact on consumers experience of reliability but are not adequately covered by the unplanned interruption quality standard.
5. Each non-exempt EDB subject to the EDB DPP Determination is also subject to revenue-linked incentives to maintain or improve its quality of supply, which includes:
  - penalties by way of a reduction in the non-exempt EDB’s maximum prices based on whether, and by what amount, the non-exempt EDB fails to meet the required quality standards; and
  - rewards by way of an increase in the non-exempt EDB’s maximum prices based on whether, and by what amount, the non-exempt EDB exceeds the required quality standards.
6. The EDB DPP Determination also makes some refinements to the revenue-linked reliability incentive scheme, relative to how the scheme worked in the previous DPP regulatory period ending 31 March 2020. These include: changing the revenue-linked reliability incentive scheme to only apply to SAIDI (ie not SAIFI), to reduce complexity and to avoid double-counting the impact of SAIFI; and setting the incentive rates for non-exempt EDBs in reference to value of lost load (VoLL) using a figure of \$25,000/MWh, so that consumer preferences are better reflected in the price/quality trade-off decisions non-exempt EDBs make.
7. The EDB DPP Determination has also changed the “normalisation” methodology applied in relation to “major events” (relative to the previous DPP regulatory period) to better manage the impact that major events can have on quality standards and incentives. The main changes are:
  - defining major events on a 24-hour basis, rolling in 30-minute intervals; and
  - capping the assessed SAIDI or SAIFI value for any half-hour period within a major event at 1/48th of the boundary value.

### *Reporting*

8. Each non-exempt EDB subject to the EDB DPP Determination must submit a written annual compliance statement to the Commission within 5 months after the end of each assessment period during the regulatory period (ie once a year for all five years of the regulatory period).
9. The annual compliance statement must report against the ‘wash-up amount’ calculation, quality standards and certain transactions of the non-exempt EDB.

### *CPP Applications*

10. Each non-exempt EDB subject to the EDB DPP Determination may, except in the 12 months before the end of the regulatory period, submit a proposal for a CPP, in accordance with the applicable timeframes set out in the EDB DPP Determination.

### **Further information**

Copies of the EDB DPP Determination, and the supporting reasons paper, are available on the Commission’s website at:

<http://comcom.govt.nz/regulated-industries/electricity-lines/projects/2020-2025-default-price-quality-path>

and are available for inspection free of charge at the Commission (during ordinary office hours), or for purchase

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at a reasonable price at the Commission, 44 The Terrace, Wellington.

Dated at Wellington this 27th day of November 2019.

COMMERCE COMMISSION.

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