

15 June 2007

Network Performance Group
Commerce Commission
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**SUBMISSION ON DRAFT SUPPLEMENTARY GUIDELINES FOR INVESTIGATING
BREACHES OF THE RELIABILITY CRITERION OF THE QUALITY THRESHOLD**

- 1 Orion welcomes the opportunity to submit on:
 - 1.1 the paper recently released by the Commerce Commission (the *Commission*) inviting submissions on the draft supplementary guidelines for investigating breaches of the reliability criterion of the quality threshold; and
 - 1.2 the associated report, *System Reliability: Recommendation for Extreme Event Criteria* (15 March 2007) prepared by Parsons Brinckerhoff Associates (*PBA*).
- 2 In summary, Orion does not agree with the Commission's proposed guidelines and approach for evaluating the impact of extreme events. We note that the Commission's proposal appears to be essentially unchanged from the draft released for consultation in September 2005.
- 3 The core of the proposed guidelines still relies on attempts to modify the existing threshold to account for extreme events (using the IEEE 2.5 β methodology to SAIDI data) in order to calculate a 'boundary value' for daily SAIDI.
- 4 In our submission of 3 November 2005, we expressed our concerns about the thresholds and the above approach. We re-iterate these concerns below.

Concerns raised in November 2005

- 5 We consider that the proposed method will not usefully assist either the Commission, or distribution businesses, in relation to assessing breaches of the quality threshold reliability criteria. We reach this conclusion because:
- 5.1 in our opinion, the method is trying to correct a flawed threshold;
 - 5.2 the method will not accurately identify extreme events, or address the issue that a distribution business may breach the SAIFI threshold as a result of an extreme event;
 - 5.3 in our opinion, the method does not improve on the existing process;
 - 5.4 distribution businesses will still have to prove that an event is extreme;
 - 5.5 an extreme event can still cause distributors to breach the reliability criteria and distributors will still have to wait for the Commission to determine, at its discretion, if an event can be considered extreme; and
 - 5.6 the proposal only moderates the impact of extreme events (to the boundary) rather than excluding them.

The proposed guidelines do not address the concerns raised

- 6 Orion considers that the proposed guidelines have failed to address the concerns raised not only by Orion, but by many others who overwhelmingly rejected the Commission's earlier proposal. We are also concerned to note that a number of issues raised by Orion and others have not been addressed by PBA, as they were considered to be outside PBA's mandate.
- 7 We do not consider it productive to further develop our previous submission, as it appears clear that the fundamental problems with the threshold will not be addressed until the 2009 reset. Instead, we wish to add our support and endorsement to the Electricity Network Association's (ENA) submission. The ENA's submission contains significant arguments in relation to the Commission's current proposal, and the PBA report, that we consider the Commission should have regard to. In particular, we agree with the ENA's submission that:

- 7.1 the Commission's proposed approach does not achieve its stated objective "*to reduce uncertainty about the Commission's response to certain types of breaches*". Rather, the proposed approach confirms that, following a reliability breach, the breaching business will be subject to a high degree of uncertainty due to the largely unlimited level of discretion the Commission has chosen to retain;
- 7.2 the proposed guidelines should be amended to explicitly self-limit the Commission's discretion to the extent that the Commission feels comfortable with. At the very least, we believe that the Commission should commit to the principle that, where the cause of a reliability breach can be explained, to the Commission's satisfaction, by extreme events or natural variability, the Commission will not take further action. Such a commitment could also be implemented by amending the thresholds themselves, rather than amending the guidelines. Any commitment short of this will mean that the guidelines provide no material incremental benefits for the regime compared to the *status quo*;
- 7.3 the Commission has proposed an approach to identifying and evaluating the impact of extreme events that is largely unchanged from the draft released for consultation in September 2005, which was not supported by any stakeholders during prior consultation, and was expressly opposed by 26 out of 27 submitters;
- 7.4 the use of the boundary value to normalise reliability data will ensure that little, if any, incremental value is derived from carrying out the normalisation. As previously submitted by ENA members, such a normalisation, when applied to historical reliability breaches, would still result in SAIDI and SAIFI values that exceed the threshold targets. PBA agrees that using the boundary value to replace MED data points "*would be unlikely to have an impact on the treatment of many threshold breaches*"¹;
- 7.5 the Commission's proposal to use the boundary, rather than the average value to normalise reliability data, is completely unprecedented; and
- 7.6 the need to include SAIFI in the test for an extreme event.

¹ Parsons Brinckerhoff Associates, "System Reliability: Final Recommendations for Identifying Extreme Events", 15 March 2007, p 30.

ENA's proposed alternative

- 8 Orion considers that the ENA's proposal is a workable compromise that has the potential to help achieve the Commission's stated objective "*to reduce uncertainty about the Commission's response to certain types of breaches*". This proposal could form a useful interim solution until the revised thresholds for the 2009 reset are developed.

Recommendations

- 9 Orion recommends that the Commission:
- 9.1 does not proceed with the proposed guidelines and the IEEE methodology to establish extreme event criteria; and
 - 9.2 considers developing guidelines based on the alternative ENA proposal.

Concluding remarks

- 10 Confidentiality is not claimed for any of the content of our submission.
- 11 Thank you for the opportunity to make this submission. If you have any questions relating to the submission, please contact Dennis Jones (Industry Developments Manager) DDI 03 363 9526 email dennis.jones@oriongroup.co.nz.

Yours faithfully



Dennis Jones
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