



MAJOR ELECTRICITY USERS' GROUP

15 December 2017

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Commerce Commission
By email to powercocpp@comcom.govt.nz

Dear Dane

Powerco CPP draft decision

1. This is a submission by the Major Electricity Users' Group (MEUG) on the Commerce Commission draft decision "Powerco's proposal to customise its prices and quality standards", 16 November 2016 (the Powerco CPP draft decision).¹
2. MEUG members have been consulted in the preparation of this submission. This submission is not confidential. Some members may make separate submissions.
3. Attached and to be read as part of this submission is a report by Mr Mike Hensen of NZIER, Powerco CPP draft decision- Advice to MEUG for Commerce Commission submission, 14 December 2017.
4. MEUG submits:
 - a) The Commission should scale back targeted quality standards to the status quo;
 - b) Consequently, approved expenditure can be scaled back;
 - c) Opportunities and downsides with the proposed Annual Planning Report; and
 - d) The post-decision review of this application needs to be comprehensive.
5. Each of these are discussed in the next 4-sections.

¹ URL <http://comcom.govt.nz/dmsdocument/15880> at <http://comcom.govt.nz/regulated-industries/electricity/cpp/cpp-proposals-and-decisions/powercocpp/powerco-customised-price-quality-path-draft-decision/>

The target quality standards should be scaled back to the status quo

6. The Commission has not provided a strong or clear rationale for giving so little weight to consumers unwillingness to pay more in exchange for improved future reliability. The Commission's decision to approve expenditure questioned by the verifier but also lower the unplanned SAIDI target for 2023² is puzzling. The change in reliability is modest and it is unclear from the Commission's decision if the alternative of leaving the unplanned SAIDI target as proposed by Powerco and further lowering the expenditure was considered.
7. The report by NZIER examines the trade-off between price and quality for customers estimated by Powerco and submitted in its proposal, and then assessed by both the Verifier and the Commission in the draft decision. Despite the Verifier questioning Powerco's forecasts of reliability, the draft decision modifies Powerco's CPP (expenditure is reduced by 4 percent and the target for SAIDI in 2023 is lowered by 3 percent) rather than considering the minimum level of expenditure required to maintain reliability improvements. Refer NZIER report section 1, Quality Path.
8. NZIER further examine the analysis by Powerco of options for 16 discrete regional growth and security projects. The Powerco analysis overstates the project benefits and some of the projects have a low NPV relative to their capital cost and some projects have a negative NPV. Also in broad terms, Powerco's method for analysing these projects is a cost benefit comparison similar to that applied by NZIER to the Powerco CPP except that Powerco has discounted the cost and benefits and extended the analysis period to 20 years. Refer NZIER report section 2, Options analysis. These regional analyses undermine our confidence a least cost path for each region has been proposed by Powerco and approved in the draft determination by the Commission.
9. Powerco has, as required by the CPP IM, prepared its application using the expenditure objective. The draft decision rebuts NZIER and MEUG prior submissions that a cost-benefit-analysis (CBA) trumps the CPP Input Methodology (IM) prescribed expenditure objective. We disagree. NZIER respond to the CC rebuttal of using a CBA in their report section 3, Role of CBA analysis.
10. Absent any quantification for the Commission that the incremental long-term benefit to consumers from a change from current to a higher level of quality exceeds the costs; we see no other decision can be reached by the Commission other than to retain the status quo quality standards.

Expenditure levels are a function of quality and therefore also need to be scaled down

11. We understand that the higher the target level of quality standards the higher the required expenditure and vice versa. If true then the draft decision proposal to increase quality standards will lead to higher expenditure requirements than retaining the status quo quality standards. As explained in the preceding section there is no evidence presented to satisfy customers there is an incremental net benefit with higher quality standards. Accordingly, the status quo quality standards by default should be approved and a commensurately lower expenditure path determined than that in the draft decision.

² The lack of comment on how the reduced target for 2023 is expected to affect the unplanned SAIDI for the period 2024-2027 makes it hard to compare the reliability paths of the Commission's decision to the Powerco CPP proposal.

Opportunities and downsides with the Annual Planning Report

12. First the downsides of the proposed Annual Planning Report (APR):
 - “It will simply be a tell-and-sell approach.”³
 - It will consume Powerco resources that could be better deployed elsewhere
13. Second the opportunities:
 - The outcomes to be presented in the APR reflect no contractually enforceable metric. However, they could give Powerco and customers an opportunity to pilot some metrics that could in future years become part of contract performance measures.

For example, there is no metric to pick up number of planned outages and frequency that imposes a burden on individual or a group of regional or voltage class customers. Take the case of dairy farmers and Fonterra manufacturing plants. They do not want to respond to planned outages on the same supply line multiple times when prudent planning could ensure all required work is completed in the minimal number of outages. A metric on the fraction of repeat planned line outages could be piloted in the APR by customer class or region.
 - Since the publication of the draft decision MEUG has engaged with Powerco on outage planning processes. Powerco has assisted bring us up to speed on those processes that are governed in part by the current Electricity Authority’s voluntary model-use-of-system-agreement. That engagement illustrated that having an APR, even in draft form as part of this consultation, helped us identify a topic we needed more information on and therefore constructed a question that Powerco could address. A benefit of the APR may be to assist customers understand the context of concerns they have and frame enquiries to Powerco accordingly.
14. The APR is a voluntary document Powerco undertake to design, publish and hold 2-public meetings on. We worked through the draft APR closely but have not tabled our detailed comments. One overall comment is that the APR should each year state CPP approved outcomes for the year just ended and or the cumulative approved outcome to that year and or target CPP 5-year approved targets and actual outcomes. Brief narratives, as proposed in the draft APR, are helpful as a guide to readers to quickly understand core drivers of actual outcomes. The APR must be presented in such a way that the progress against the CPP approvals are consistent with and reconcilable to the latest AMP and annual information disclosures.
15. It may be useful for Powerco to consider consulting with interested parties after the final CPP decision on the contents of the APR. The length of the APR should be no more than that of the draft, ie 19 pages, to keep the report focused on the highest value metrics.

³ MEUG submission to CC, 22 September 2017, paragraph 2.8, refer <http://www.meug.co.nz/node/874>

The post-decision review of this application needs to be comprehensive

16. The Commission has noted a review of the CPP process for this application will be undertaken. MEUG looks forward to that review considering the points in Part 3 of our prior submission on topics to improve the CPP regime.⁴
17. The draft decision correctly focuses mainly on the draft decision using the current CPP rules. In some instances, the draft decision does mention topics that could be part of a post-decision review process as suggested in MEUG's prior submission, eg:

“We considered linking delivery of this investment to Powerco's ability to increase prices. For instance, we could have limited Powerco's ability to increase future prices and/or clawed back price increases where the proposed investment did not in fact occur. We decided against this in the case of Powerco only because we had not previously signalled this to the industry and potential CPP applicants. However, we may consider such an approach in future and that may require future IM amendments.”⁵
18. Another topic suggested for the post-decision review in the last MEUG submission was on the CPP consumer consultation requirements. The just published Commission decision on the review of the Input Methodology (IM) for gas pipeline business CPP consumer consultation requirements notes those requirements may be “... further reassessed at the completion of the Powerco CPP determination as part of the 'lessons learned' process”.⁶
19. Should the Commission not accept our submissions and advice of NZIER that CBA should be the primary decision-making criteria rather than the expenditure objective as discussed in paragraph 9 above, then this should be a topic for the post-decision review.
20. Separately we have today provided feedback on the Commission open-letter of 9 November 2017 on priorities for the electricity distribution sector for 2017/18 and beyond. In that feedback, we note (paragraph 10):

“The CC should make it clear if any actions arising from the review will be confined to the IM framework revised this time last year or further refinements to the IM will be possible. We think a review must allow the latter.”

Yours sincerely



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Executive Director

⁴ Ibid, p13.

⁵ Draft decision, paragraph 637.

⁶ Refer Commission decision, 13 December 2017, footnote 14, <http://www.comcom.govt.nz/dmsdocument/16000>.