
Cross-submission

Draft decision: Powerco's CPP proposal

19 January 2018

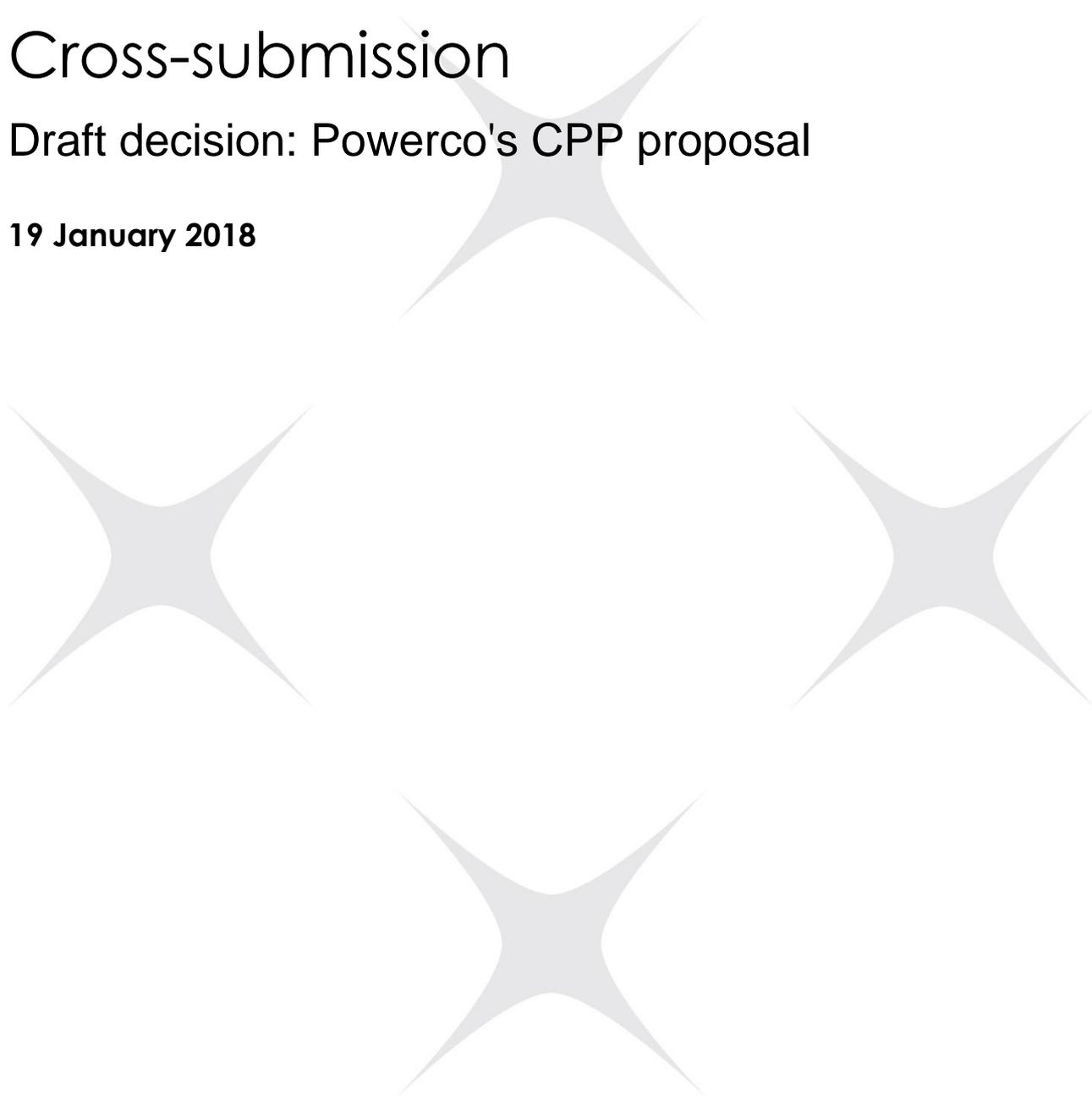


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1 Introduction

Aurora welcomes the opportunity to cross-submit on the Commerce Commission's draft decision "Powerco's proposal to customise its prices and quality standards", 16 November 2017.

No part of our cross-submission is confidential and we are happy for it to be publicly released.

If the Commission has any queries regarding our CPP submissions, please do not hesitate to contact:

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2 Service quality and willingness to pay

Some submissions objected to the draft decision on the basis that consumers aren't willing to pay more to improve service quality.

MEUG suggested that "The Commission should scale back targeted quality standards to the status quo" and that "Consequently, approved expenditure can be scaled back".¹ MEUG further argues that "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"². Pat Duignan went further, claiming that "The draft decision creates a precedent by overriding customer's [sic] stated preferences..."³.

Aurora does not believe these submissions should be given any particular weight.

Powerco's rationale for seeking a CPP is not to enhance service quality. The objective, clearly stated within the proposal, is a prudent and timely intervention to prevent service quality from further deteriorating to an extent that, if left unchecked, would likely result in future quality breaches. As such, Powerco's proposal seems to us to be predictable, and consistent with outcomes expected of default and customised price-quality regulation, given the natural incentives inherent in the regulations.

The Commission has noted that consumer feedback supports service levels being maintained; "Powerco's consultation as part of preparing its CPP proposal indicates that service quality matters greatly to customers, and that deteriorating service levels would not be acceptable. Powerco notes that during its core consultation on its preliminary CPP proposal in early 2017, its customers said that current reliability should be maintained or improved"⁴.

It is possible MEUG and Mr Duignan misconstrued the nature of the CPP proposal, because the Commission's draft decision effectively rejects Powerco's proposal to maintain its existing quality 'allowance' for unplanned outages, and instead imposes a requirement for a material reduction over the course of the CPP period. The basis on which the Commission has derived the proposed quality improvement targets, has not been fully explained nor modelled.

Given the Commission's draft decision that Powerco's proposed expenditure should deliver improved, rather than stabilised, quality performance, the Commission would now have to isolate and remove the expenditure that it considers sits above the expenditure required to maintain existing unplanned quality performance. We consider that most, if not all, of the proposed expenditure simply won't be granular enough for this to be possible. What the exercise might show, however, is

¹ MEUG. (2017). *Powerco CPP draft decision*. 15 December 2017, paragraph 4, p1.

² MEUG. (2017). *Powerco CPP draft decision*. 15 December 2017, paragraph 6, p2.

³ Pat Duignan. (2017). *Submission by Pat Duignan re Commission Draft Decision on Powerco CPP Proposal*. 15 December 2017, paragraph 26, p5.

⁴ Commerce Commission. (2017). *Powerco's proposal to customise its prices and quality standards: Draft decision*. 16 November 2017, paragraph 468, p106.

that the Commission's draft decision to set a higher service quality standard than proposed by Powerco is not well justified.

We query Mr Duignan's suggestion that *"once the Verifier and Commission have concluded ... the proposed expenditure would result in an improvement in reliability ... the onus is on Powerco to explain how it will reduce its expenditure proposal"*⁵. Powerco did not suggest that its proposal would improve service quality above the status quo, therefore, it is not Powerco's proposal to justify.

3 Continued raising of extraneous issues

Consultation is an important part of the CPP process. Our submission on the draft decision reflected our view that, while stakeholders are invited to submit their views on the consultation matters, it is not appropriate to use the CPP consultation to advance advocacy on unrelated matters; particularly given the importance of the CPP decision to the successful operation of the Part 4 regime and, more specifically, for consumer outcomes over the long-term.

As an example, Contact Energy has used the Commission's draft decision on Powerco's CPP to relitigate issues such as whether EDBs should be prevented from owning generation and storage assets, etc. This issue has been previously widely consulted on the Commission.

It was particularly surprising that Contact Energy would raise this matter again, given that the Commission has been very clear in a prior statement that *"Some submitters in [the IMs review] process (retailers in particular) sought to constrain EDBs from fully using (ie, owning and operating) new technologies, in particular by restricting the inclusion of certain assets classes into the regulated asset base (RAB). We did not accept that approach ..."*⁶

4 Proposals to add retrospective information requirements

We were surprised at Mr Duignan's support for the NZIER CBA, considering his role as a former Commissioner. We would expect Mr Duignan to understand and respect the existing IM rules, and the fact that they don't require the type of CBA he is now advocating.

Mr Duignan suggests that because Wellington Electricity provided a CBA with their limited scope / fast track CPP, then Powerco should have as well. We consider this argument specious. The IMs specify the information an applicant has to provide, and do not constrain regulated suppliers from providing additional information if they deem it helpful, as Wellington Electricity has done in this instance.

If the Commission made retrospective decisions to add information requirements, over and above the requirements of the IMs, this would create considerable risk and uncertainty for regulated suppliers considering a CPP; particularly given they cannot withdrawal the CPP once they have applied for it.

We reiterate our earlier comments, with regard to submitters advocating that CBA forms a part of CPP applications, that *"The appropriate channel for advocating such requirements is, as the Commission notes, the IMs review process"*⁷.

5 Problems with NZIER's CBA

Nothing in any of the submissions gives us reason to believe that the Commission should change its stance that the NZIER CBA is not fit-for-purpose. The NZIER submission seems more focussed on

⁵ Pat Duignan. (2017). *Submission by Pat Duignan re Commission Draft Decision on Powerco CPP Proposal*. 15 December 2017, paragraph 33, p6.

⁶ Commerce Commission. (2017). *Powerco's proposal to customise its prices and quality standards: Draft decision*. 16 November 2017, paragraph 301, p76.

⁷ Aurora Energy Ltd. 2017. *Powerco's proposal to customise its prices and quality standards: Draft decision*. 15 December 2017, section 5, p3.

defending their own work, and downplaying the issues with their CBA, than addressing the problems identified by the Commission.

The Commission has clearly demonstrated that the NZIER CBA is biased against the proposal, and could be reasonably adjusted to produce a positive outcome.