



Corporate Office

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Commerce Commission  
Wellington

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## **POWERCO FEEDBACK ON AURORA CPP DRAFT DECISION**

Powerco welcomes the opportunity to comment on the Commerce Commission's draft decision on Aurora Energy's proposal to customise its prices and quality standards. The draft decision is substantial in both volume and nature of content, reflecting the significant amount of work by all parties to address Aurora's situation. The consultation timeframe is unchanged, which makes engagement with the issues challenging.

We are interested in Aurora's CPP because it is important that there is a viable and proportionate alternative to the default price-quality path that better suits an EDB's unique circumstances. We:

- Support proportionate and targeted reporting. This will ensure the desired transparency and accountability is delivered at the lowest cost
- Welcome the two reconsideration mechanisms. Providing additional funding for required 'capacity' and 'risk' investments will improve outcomes for consumers
- Recommend the Commission applies extra scrutiny to the cost escalation forecasts given the forecasting uncertainty introduced by Covid-19
- Suggest further work is required on the approach taken to resolving differences in the verifier and Strata's analysis of Aurora's opex allowances

Attachment 1 provides Powerco's detailed feedback. If you have any questions on this submission, please contact Nathan Hill ([Nathan.Hill@powerco.co.nz](mailto:Nathan.Hill@powerco.co.nz)).

Yours sincerely

A handwritten signature in black ink, appearing to read "AK", written over a light blue horizontal line.

Andrew Kerr  
Head of Policy, Regulation, and Markets

## **Attachment 1: Powerco's detailed feedback**

### **Support proportionate and targeted reporting/accountability**

Our experience is that stakeholder's interests can change over short time periods. So, the requirements ought to focus on the outcome desired, rather than prescribing how that outcome is achieved. This approach allows the reporting to adapt through time so that it remains targeted and meaningful.

Reporting to stakeholders has an operating cost, so the requirements should be proportionate, practical, and consistent with their intent.

### **The reconsideration mechanisms support good consumer outcomes**

#### **Capacity event reconsideration mechanism**

Powerco welcomes the capacity event reconsideration mechanism. Capacity investments are customer-driven and can be challenging to forecast. As a result, a distributor's allowances may not reflect consumer needs. This can lead to delayed investment and poor consumer outcomes. Conditional funding alleviates this problem. It ensures distributors have incentives to invest and to provide services at a quality that reflects consumer demands.

#### **Risk event reconsideration mechanism**

Network deterioration impacts safety and network reliability. And it can be difficult to forecast. Including a 'risk event' mechanism enables previously unjustified investment to occur if it is required. This benefits consumers.

The risk the reconsideration mechanism is attempting to address does not differentiate distributors based on how they are regulated. So, the risk event mechanism ought to be applied to all price-quality regulated distributors. This will ensure all customers are treated on a level playing field, regardless of where they are located in New Zealand.

### **Review cost inflation forecasts and sources**

The Commission has updated Aurora's cost escalators to account for the impact of Covid-19. These forecasts are made during a time of extraordinary and extreme economic impact and uncertainty. This necessitates extra scrutiny and care to make sure the forecasts characterise the costs inflators relevant to Aurora.

### **Further work required to resolve verifier/benchmarking analysis of opex**

We support the use of benchmarking to inform decision making. But care is required when applying it, particularly when used as a significant input into major decisions. Providing informed comment about the Commission's assessment of Strata's and Aurora's analysis in Part E (opex allowances) is challenging given available time and resource. We have three observations:

- The analysis includes comments about Powerco's staffing arrangements in our CPP proposal. These were made over 2016-17 to inform the Commission's final decision in March 2018. If this information is important to the Strata assessment, there could be value in comparing (current) organisational roles and structures to ensure any comparisons are valid. We are not aware of this being done.

- Effective benchmarking needs to account for material differences between networks. For example, factors such as geography, vegetation density, network density, traffic management requirements and ease of access to assets all contribute materially to the cost of providing distribution services. It is not clear that the differences between Aurora and other networks have been adequately accounted for in Strata's benchmarking.
- The costs to deliver the reporting outlined in E125 will have a non-negligible impact on staffing levels and outsourced costs. This impact should be assessed in a pragmatic way in any headcount/role assessments.

Given the material disconnect between the conclusions of the Verifier and Strata, an alternative approach or review to 'explain the difference' should be considered to provide confidence to consumers that conclusions are prudent and meet the expenditure objective. A risk of the Commission's (draft) choice to rely on Strata's analysis is that Aurora will be under-resourced. This could hinder Aurora's ability to deliver a significant uplift in work, reinforcing the concerns from stakeholders that it can't be trusted to deliver.