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# Submission

Commerce Commission: Default price-quality paths for electricity distribution businesses from 1 April 2020 - Issues Paper

**20 December 2018**



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# 1 Introduction

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- 1.1 Aurora Energy welcomes the opportunity to submit on the Commerce Commission's (Commission) "Default price-quality paths for electricity distribution businesses from 1 April 2020 – Issues Paper" (Issues Paper).
- 1.2 No part of our submission is confidential and we are happy for it to be publicly released.
- 1.3 If the Commission has any queries regarding this submission, please do not hesitate to contact:  
Alec Findlater  
General Manager Regulatory and Commercial  
Aurora Energy Limited  
[alec.findlater@auroraenergy.co.nz](mailto:alec.findlater@auroraenergy.co.nz)  
027-222-2169

## 2 Executive summary

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- 2.1 Moving now into the third default price-quality path (DPP3) reset for electricity distribution businesses (EDBs), it is comforting to see that the Commission is intending to "retain approaches from the second EDB DPP (DPP2) where they remain fit for purpose"<sup>1</sup>. This approach sees the regulatory framework under Part 4 of the Commerce Act 1986 (Act) become more engrained, and therefore more certain for stakeholders, and allows it to evolve where necessary rather than being continuously overhauled at each reset.
- 2.2 While we are generally supportive of the Commission's proposals in the Issues Paper, we do harbour some concerns, which we detail further in this submission.
- 2.3 Our more general, overarching concerns centre on the following:
  - **Proportionate scrutiny of forecasts:** An area of concern for Aurora Energy, given that we expect to be subject to DPP3 for one year before transitioning to a CPP, is the setting of our forecasts and the form of scrutiny that the Commission will apply. While we acknowledge that a form of scrutiny needs to be applied to the capital expenditure forecasts contained in EDBs' asset management plans (AMPs), we prefer that our forecasts are assessed against other material disclosed in our AMP, including the additional evidence of expenditure need provided by WSP's independent report on the state of our network<sup>2</sup>. In our view, this would be a proportionate level of scrutiny, especially during a time where we will be preparing for our CPP application;
  - **Considering quality standards as an integrated package of measures:** The issues paper proposes a number of discrete changes to the quality standards framework that, if considered separately, could result in a significantly more difficult compliance position for EDBs and risk more frequent quality standard breaches. This is likely to increase costs to both the Commission and EDBs in investigation and enforcement proceedings (ignoring any potential penalties). We consider that the quality standards framework must be considered as an integrated package of measures; and
  - **Signalling of changes firstly in information disclosure:** Where the Commission does intend to amend the framework, for example in relation to introducing new quality of service measures or disaggregating capital expenditure categories, we would prefer that it does so by signalling such changes in the information disclosure framework in the first instance, and then including them in a subsequent DPP. This provides EDBs with the opportunity to

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<sup>1</sup> Issues Paper, paragraph 2.14.

<sup>2</sup> WSP. (2018). Aurora Energy, Independent Review of Electricity Networks, Final Report. 21 November 2018.

adjust to the reporting requirements prior to being exposed to penalties under the DPP framework.

### 3 Structure of our submission

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- 3.1 The Commission has structured the Issues Paper by addressing the following components of the DPP that it needs to make decisions about:
- (a) forecasts of operating expenditure;
  - (b) forecasts of capital expenditure;
  - (c) quality standard and incentives;
  - (d) incentives to improve efficiency;
  - (e) incentives for energy efficiency, demand-side management, and reduction of energy losses; and
  - (f) changes that are required as a result of amendments to the Input Methodologies.
- 3.2 We have structured our submission in largely the same manner, following the topics that are then covered by the attachments to the Issues Paper.

### 4 Forecasting operating expenditure

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#### Operating expenditure baseline

- 4.1 We support the Commission's proposal to use EDBs' actual operating expenditure in the 2019 disclosure year as the base level of operating expenditure. The incremental rolling incentive scheme (IRIS) introduced in DPP2 has reduced the risk that an EDB will inflate its expenditure in a given year to game the forthcoming reset, meaning that the 2019 disclosure year's actual operating expenditure should provide a useful baseline.

#### General econometric approach

- 4.2 In principle, we support the retention of the general econometric approach to forecasting operating expenditure growth due to network scale growth, given that this approach is consistent with the purpose of DPP regulation - *"to provide a relatively low-cost way of setting price-quality paths"*<sup>3</sup>.
- 4.3 We would, however, recommend that the Commission:
- (a) consistently reviews its forecasts against actual operating expenditure; and
  - (b) continues to review the inputs used to determine network scale growth, to ensure that existing inputs are/remain valid, and to identify other factors that may impact on scale growth.
- 4.4 If the Commission decides to use regional population growth forecasts to inform growth in installation control points (ICPs), it should be mindful of, and understand, regional differences that may render that input inaccurate or ineffective. For example, regional population growth forecasts in the Queenstown Lakes District area would not necessarily be reflective of the ICP growth expected during DPP3. The Queenstown Lakes District resident population is small when compared to the visitor population, with a large proportion of ICP growth in the District supporting tourism related activity.

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<sup>3</sup> Commerce Act 1986, section 53K.

- 4.5 We suggest that the Commission use historical line length growth to forecast line length growth, rather than requiring EDBs to specifically forecast line length growth. Whilst increases in line length are most commonly associated with connection growth, the timing and location of such extensions are variable and frequently unpredictable.

### **Partial productivity factor**

- 4.6 The Commission has proposed a partial productivity factor of 0%. In our view, any partial productivity factor proposed should be supported by a similar study to that undertaken by Economic Insights at the DPP2 reset. While we acknowledge that the Commission is seeking evidence for deviating from this assumption, we consider that the Commission should also provide evidence as to how it arrived at a partial productivity factor of 0%. In our DPP2 submissions, we emphasised the need for the Commission to undertake evidence-based decision making, as opposed to placing undue weight on assumptions<sup>4</sup>.

### **All-industries labour cost and producer price indices**

- 4.7 While we support the use of the all-industries labour cost and producer price indices, we are not convinced that they are entirely reflective of EDBs input costs. We consider that a transport component should be incorporated (with a possible weighting of between 5% and 10% scaled according to ICP density) to more adequately reflect the inputs to operating expenditure.

## **5 Forecasting capital expenditure**

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### **Use of EDBs' AMPs**

- 5.1 We support the use of EDBs' AMPs as a starting point for capital expenditure forecasts. EDBs are best placed to understand, evaluate and forecast their individual expenditure needs and therefore we are of the view that the use of AMPs is appropriate.

### **Scrutiny of AMPs**

- 5.2 While we acknowledge that the Commission does "*not consider it appropriate to use EDB AMPs without some form of limit or scrutiny*"<sup>5</sup>, it is important to remember that "*The purpose of default/customised price-quality regulation is to provide a relatively low-cost way of setting price-quality paths*"<sup>6</sup>.
- 5.3 We are concerned by the impact that excessive scrutiny would place on our efforts to develop our customised price-quality path (CPP) proposal during 2019. Excessive scrutiny of our capital expenditure forecasts would require us to redirect resources that would otherwise be allocated to the development of that proposal.
- 5.4 With that in mind, we consider that any form of scrutiny applied to AMPs should be proportionate. Our preference is for the Commission to assess AMP capital expenditure forecasts against other material disclosed in the AMPs. During 2018, we engaged WSP to conduct an independent review of the state of our network assets. That report, published in November 2018, presents a risk-based view of Aurora Energy's network and provides objective evidence to support our capital expenditure forecasts.

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<sup>4</sup> Aurora Energy Limited. (2014). Submission – Proposed Default Price-Quality Paths for Electricity Distributors from 1 April 2015 and Low Cost Forecasting Approaches for Default Price-Quality Paths, 15 August 2014, pages 9-11.

<sup>5</sup> Ibid at 1, paragraph B21.

<sup>6</sup> Commerce Act 1986, section 53K.

## **Disaggregation of expenditure categories**

- 5.5 While most capital expenditure can be readily disaggregated to disclosure sub-categories, we would not support disaggregation of the consumer connection category to the proposed prescribed sub-categories of Residential, Commercial, and Industrial.
- 5.6 Information disclosure permits each EDB flexibility to disaggregate consumer connection expenditure according to their unique business rules. Where we disaggregate consumer connection expenditure, we tend to focus on capacity bands. Our pricing methodology tends to direct our focus on consumer connection, with our connections falling into just two sub-categories – Residential and General.
- 5.7 Where the Commission proposes to replace flexibility with prescription, we are of the view that those changes should be signalled first through information disclosure, before including in the DPP framework. To this end, we consider it more appropriate to forecast consumer connection expenditure at the category level, introduce prescriptive sub-categories within information disclosure from the commencement of DPP3, thereby permitting disaggregated forecasting for DPP4.
- 5.8 We note that similar flexibility is afforded for the asset relocation category.

## **Cost escalator**

- 5.9 The Commission has outlined a number of options that it is considering in relation to determining a cost escalator. We support retention of the all-industries CGPI forecasts; however, some regions of the country appear to have materially different cost structures to the average (for example the Queenstown Lakes District within our network), and we would like to see regional indices used, where possible.

## **Scrutiny of capital contribution forecasts**

- 5.10 The Commission has indicated that it is considering independently scrutinising EDBs' forecasts of capital contributions. We do not support this proposed approach, and recommend continuation of the net forecast approach to consumer connection and asset relocation expenditure, as taken in DPP2. Separate scrutiny, in our view, increases the likelihood of forecast error.
- 5.11 Our experience is that both consumer connection and asset relocation expenditure is difficult to forecast with precision. Much of the commercial and property development activity we see in our high growth areas is rarely signalled beyond the short term, and when signalled, can be subject to significant variability in timing. Asset relocations associated with commercial and property development generally suffer from the same issues, and while relocations driven by roading improvements are generally signalled more transparently, they too can suffer from variability in timing. Both consumer connection and asset relocation expenditure is impacted by external factors over which we have limited control.

# **6 Reliability standards and incentives**

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- 6.1 Quality standards, and incentives for maintaining quality performance, are an important part of the DPP framework, of which we are supportive. However, in the issues paper, a number of discrete changes to the quality standards framework have been proposed which, if considered separately, could result in a significantly more difficult compliance position for EDBs and risk more frequent quality standard breaches. This is likely to increase costs to both the Commission and EDBs in investigation and enforcement proceedings (ignoring any potential penalties).

- 6.2 We consider that the quality standards framework must be considered as an integrated package of measures. Our view, at this time, is that an appropriate package of measures for DPP3 would comprise:
- (a) retention of the existing reference period and associated boundary values, to support the '*no material deterioration*' principle and facilitate stability and sustainability of the framework;
  - (b) removal of planned outages from the compliance framework and incentive scheme, with monitoring conducted in information disclosure against AMP forecasts, in order to remove potential for compliance and incentive 'gaming';
  - (c) increasing the compliance buffer from 1 standard deviation, to 2;
  - (d) increasing the revenue at risk in the quality incentive, from 1% of MAR to 3%;
  - (e) introducing a compliance 'dead-band', whereby minor non-compliance is dealt with through the penalties of a modified incentive scheme, and investigation and enforcement is reserved for more material breaches;
  - (f) additional reporting measures for quality standard contraventions and major event days; and
  - (g) developing additional quality of service measures in information disclosure first, before further considering adding those measures to the compliance framework in DPP4.

### **RELIABILITY QUALITY STANDARD**

#### **"No material deterioration"**

- 6.3 We consider that the '*no material deterioration*' principle remains appropriate; however, only in respect of unplanned interruptions.
- 6.4 EDBs' investment requirements are not constant year-on-year, and in order to maintain no material deterioration, periodic 'bursts' of investment are generally required, which affects the quantum of planned interruptions.
- 6.5 Furthermore, planned interruptions can be problematic as they are driven by external factors (for example evolving (declining) risk tolerance to high-risk work methods), as we have seen with some EDBs in this DPP2 period.
- 6.6 In line with our submission to the DPP2 reset, we invite the Commission to consider whether the sinking-lid nature of quality resets (as applied in DPP2) is sustainable and consistent with the principle of no material deterioration, or whether a different approach is required.

#### **Separate planned interruptions rather than applying further de-weighting**

- 6.7 We support the separation of planned interruptions, and consider that they should be monitored in information disclosure, against the forecasts in AMPs.
- 6.8 Further supporting our views in paragraphs 6.4 and 6.5, above, planned interruptions are required for the orderly maintenance and renewal of network assets, all of which contribute to the long-term sustainability of quality performance. We consider that it is not in the interests of consumers to have EDBs defer maintenance or renewal activities by cancelling planned outages, when quality standard breaches are at risk. That option should be removed.
- 6.9 We do not support further de-weighting of planned outages as an alternative. In DPP2, planned interruptions were de-weighted by 50%; however, because de-weighting was also applied when deriving the quality limits, there was no practical effect (the same change applied to both sides of the equation).

## **Widening the compliance buffer**

- 6.10 We support the Commission's proposal to widen the compliance buffer between the SAIDI/SAIFI historical average and the quality limits, from one standard deviation to two, noting that this will affect the quality incentive also.
- 6.11 We consider that it is timely to consider the structure of the quality incentive, and whether there is merit in introducing a compliance 'dead-band'. We envisage that the 'dead-band' would pivot around the compliance limit, with incentive penalties managing instances of relatively minor quality standard non-compliance. More serious non-conformance (outside the 'dead-band') would remain subject to the '2 out of 3 year' rule, and invite investigation and subsequent enforcement action. Our view is that this would reduce compliance costs for both the Commission and EDBs by introducing a degree of proportionality in enforcement, while maintaining appropriate incentives on EDBs to maintain their quality performance.

## **Reference period**

- 6.12 We support a 10-year reference period, although we question whether, instead of varying the reference period at each reset, a more stable, baseline, reference period would be consistent with the '*no material deterioration*' principle.
- 6.13 We consider that using a new 10-year reference period at each reset causes deteriorating performance to be rewarded by an uplift in compliance limits, and improved performance is penalised by lower compliance limits. A stable reference period would:
- (a) create an enduring incentive to maintain quality performance ('no material deterioration'), since poor performance will not be rewarded by more comfortable limits;
  - (b) add a degree of sustainability to the quality standards (refer to paragraph 6.6, above), since improved performance will not be penalised by future quality limits that are harder to achieve (sinking lid); and
  - (c) further promote sustainability by stabilising boundary substitution values (removing volatility), assuming the methodology for determining the values remains unchanged.

It is accepted that periodic adjustment to the limits might be required when supported by clear evidence of the need (for example, if credible evidence of the impact of climate change on unplanned reliability emerged); however, we would expect such adjustments to be very infrequent.

## **'2 out of 3 year' rule**

- 6.14 We support the continued use of the '2 out of 3 year' rule for determining a quality standard contraventions; however, we recommend a more proportionate response to quality standard contraventions, as outlined in paragraph 6.11, above.

## **Additional reporting for quality standard breaches**

- 6.15 We support, in principle, the Commission's consideration of additional reporting requirements when an EDB has contravened its quality standard.
- 6.16 However, our view is that any new reporting requirements that may be introduced in DPP3 should be limited only to breaches of unplanned SAIDI and SAIFI, and not any other quality measure that may be introduced.
- 6.17 We are also of the view that any additional reporting requirements need to be proportionate to the extent of any breach. One way of achieving this could be by taking a compliance 'dead-band' approach, as outlined paragraph 6.11 above, and imposing any additional reporting requirements only when the breach is such that it falls outside of that 'dead-band'.

## **RELIABILITY INCENTIVES**

### **Incorporating consumer demands**

- 6.18 In our view, incorporating consumer demands and preferences is problematic. While we actively engage with our consumers to capture their preferences, the electricity sector is complex and engaging with consumers that do not have the benefit of a collective voice (such as the Major Electricity Users' Group or Grey Power) is difficult, and the views that are captured often vary. Incorporating consumer demands is likely inconsistent with the low-cost purpose of the DPP and is better executed as a part of a CPP proposal. Further, it should be noted that the 'no material deterioration' principle attached to the quality standards is a regulatory proxy for consumer demands.
- 6.19 We consider that enhanced information disclosure, as a part of AMP development, may be a better mechanism for incorporating consumer demands. For example, a periodic requirement for deeper testing and incorporation of consumer demands within EDBs' AMPs (say twice in each DPP period).

### **Revenue at risk**

- 6.20 We could support an increase to the revenue at risk, provided that the overall quality standard package is reasonable and balanced (refer our opening comments in this reliability standards and incentives section, at paragraph 6.1, above).
- 6.21 Our preference is an intermediate step in strengthening the quality incentive for DPP3, to 3% of maximum allowable revenue, with an increase to 5% to follow in DPP4 subject to any necessary adjustments to the overall quality standard package.

### **Increasing cap and collar values**

- 6.22 We agree with the Commission that the incentive caps and collars may not be wide enough<sup>7</sup>, and support a widening of the bands to two standard deviations from the historical average.

### **SAIDI weighting**

- 6.23 While the most recent customer survey we have conducted suggests that the duration of an outage is more important than frequency of outages, this is not a stable view, with frequency of outages being identified as more important in past surveys. The preferences of our customers are not sufficiently clear to support different weightings for SAIDI / SAIFI.

### **Removal of planned interruptions from the incentive scheme**

- 6.24 We support the Electricity Network Association's Quality of Supply Working Group's suggestion that planned interruptions should be removed from the incentive scheme as this will *"improve incentives to plan and execute work programmes across the regulatory period without undue focus on single year outcomes"*. In particular, the risk of planned outages' continued inclusion in the incentive scheme is that necessary planned work is deferred in order to increase incentive rewards (or conversely limit incentive penalties). A similar risk applies to quality standard compliance, as explained in paragraph 6.8, above.

### **Limiting implied incentive rate to VoLL**

- 6.25 The Commission proposes that incentives should not be greater than the value of lost load (VoLL) and that it is considering limiting any implied incentive rate to VoLL if necessary.

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<sup>7</sup>Ibid at 1, paragraph C70.

- 6.26 While we do not take issue with limiting incentive rates, per se, we urge the Commission to take care in how it characterises and employs VoLL. VoLL is generally used as an engineering/commercial tool for evaluating reliability and security of supply options in network planning. We see the following issues with VoLL:
- (a) VoLL is an imprecise measure (an estimate), being an expression of consumers' willingness to pay to avoid an outage (it attaches no risk to consumers, and may not necessarily reflect their willingness when it actually comes to paying); and
  - (b) the 'average' estimate of VoLL of \$20,000 / MWh stated in clause 4(1) of Schedule 12.2 of the Electricity Industry Participation Code<sup>8</sup> (the Code) has not been conclusively revisited for over 25 years, having been derived in 1992 from a local survey and internationally observed values of unserved energy. A recent VoLL survey of Aurora Energy consumers<sup>9</sup> derived a different weighted average estimate VoLL to that stated in the Code, departing from the Code estimate by approximately 21%.
- 6.27 Finally, we note that while SAIDI can be aligned to VoLL, additional work would be required to define a limiting factor for SAIFI.

## **NORMALISATION**

### **Boundary values**

- 6.28 The Commission has identified three options for determining boundary values. We consider that reverting to a modified IEEE statistical methodology, as used in the DPP2 draft decision, may yield more realistic boundary values than the status quo (for the three years to 2018, Aurora Energy has suffered 3.3 times as many SAIDI major event days (MEDs) and 1.8 times as many SAIFI MEDs as would be expected).
- 6.29 That being said, in paragraphs 6.12 and 6.13, above, we identified that changing reference sets at each reset can lead to volatility in boundary values, as well as compromising the 'no material deterioration' principle. For example, if the 10-year reference set is advanced by 5 years at each reset, and an EDB suffers several reliability events in the latter half of the period with attributed SAIDI/SAIFI above the previous 23<sup>rd</sup> highest, then the boundary value will increase. Although it can be assumed that those higher events will be reflected in a slightly higher 10-year average, compliance may well be much harder to achieve because of the higher boundary substitution values (more SAIDI/SAIFI is accumulated before boundary substitution provides relief).
- 6.30 Our view is that stability and sustainability of quality standard methodologies is important, and that if a constant reference set is maintained, then retention of the status quo (23<sup>rd</sup> highest event in the 10-year reference set) should not be problematic.

### **Rolling-24 hour period for major event days**

- 6.31 While identifying an unplanned MED based on a rolling 24-hour period seems reasonable, we are concerned that the systems required to monitor, recognise and normalise a MED in this manner might be overly complex when compared to the benefit.

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<sup>8</sup> There is a misconception that there is an 'industry-standard' VoLL. The Code states that "[t]he Authority may determine different values of expected unserved energy under this clause for different purposes and for different times". This strongly infers that VoLL cannot be casually applied to non-investment purposes without careful consideration of suitability.

<sup>9</sup> PricewaterhouseCoopers. (2018). Estimating the Value of Lost Load: Aurora Energy Limited. January 2018.

## Additional reporting of major event days

6.32 We have recently initiated more thorough investigations of MEDs and, therefore, would not be concerned by a requirement for additional reporting. However, investigation can take some time, and the occurrence of an MED close to the end of the disclosure year could make including the investigation outcome in compliance statements difficult when timeframes for review, audit and certification are considered.

## Amendments to Information Disclosure requirements

6.33 In our view, the quality-reporting framework in the Information Disclosure Determination<sup>10</sup> should be modified to align with DPP requirements.

6.34 We accept that monitoring low voltage (LV) interruptions is likely to be part of the next evolution of quality standards. LV circuits are likely to become more critical in the future as new technologies gain scale; however, this may present significant challenges for EDBs to maintain quality of service at the LV distribution level, given that performance may be significantly impacted upon by third parties. We recommend that, before extending compliance requirements, reference data is collected via information disclosure for a minimum of five years.

6.35 Similar issues exist for; recording the momentary average interruptions frequency index (MAIFI), collecting information on interruptions by location, network type and customer type, and estimating lost load.

6.36 The Commission should be mindful that significant expenditure is likely to be required to develop the systems (and possibly implement the technologies) that will enable reference data to be captured for these proposed new measures. That expenditure is likely to be required within DPP2 (for DPP3 commencement), for which no explicit expenditure allowance has been made, and which may adversely impact EDBs' IRIS. We would like to understand how this might be addressed.

## 7 Other measures of quality of service

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7.1 While we are open to additional quality of service measures being included as part of quality standards, we would be concerned if the consequence was a much elevated non-compliance risk. Careful consideration should be given as to whether these measures should be incorporated into the information disclosure framework and reported by all EDBs, or whether it is appropriate that just fully regulated EDBs are burdened with additional compliance obligations.

7.2 If the suggested measures become activities that are subject to strict compliance then, in our view, a great deal of care is required in determining the compliance threshold and detailing any exemptions. In the case of the three potential additional measures that could be included as part of quality standards, outlined by the Commission in Attachment D of the Issues Paper:

- (a) **Time to quote new connections:** new connections can vary in complexity and can take from days to months to design and quote. Those connections which should be included and those that should be exempted would need to be considered. How the 'acceptable' time to quote is established would also need to be carefully considered;

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<sup>10</sup> Electricity Distribution Information Disclosure Determination 2012.

- (b) **Power quality:** in order to introduce this measure, thought would need to be given as to where the power quality is measured - whether this is at the distribution transformer / LV feeder level, at the ICP, or elsewhere. If it is to be measured at the ICP, then we suggest that the following would need to be considered:
- (i) whether all advanced meters can provide power quality (at all);
  - (ii) whether all advanced meters can provide power quality in the same way;
  - (iii) whether all advanced meters can provide power quality to the same accuracy;
  - (iv) whether meter data managers can provide the data in volume and at reasonable cost; and
  - (v) what would occur at legacy metered sites.
- In many cases, the more important measure is how power quality problems are addressed, once identified; and
- (c) **Guaranteed service level scheme:** we have had a guaranteed service level scheme for many years and therefore the prospect of such a scheme being introduced into the DPP is not concerning for us. The key issue for us is whether the scheme is funded (as we understand it is in overseas jurisdictions), or whether it becomes another incentive penalty.

7.3 In terms of 'leading indicators', while such indicators are in our view desirable, we agree with the Commission that finding genuine predictive measures is likely to be challenging.

## 8 Expenditure efficiency

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### Retention factor

8.1 We are of the view that any increase in the capital expenditure retention factor must be accompanied by a reasonable assurance that the expenditure allowance set by the Commission meets the needs of the EDB. Given that uncertainty, we do not support equalising the capital expenditure and operating expenditure retention factors.

### Smoothing mechanism

8.2 Subject to understanding the detail of the proposal, we would support, in principle, introducing a smoothing mechanism for operating expenditure into the DPP, as we agree that this could help alleviate price shocks for consumers.

## 9 Incentives for energy efficiency, demand-side management, and reduction of energy losses

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9.1 The Commission has expressed a desire to explore options for incentivising EDBs to reduce distribution line losses.

9.2 We do not support the introduction of incentives for reducing line losses. The scale of technical line losses is significantly influenced by the topology of the network (urban / rural), with higher losses in rural areas due to line length and accumulated losses in multiple small distribution transformers. This can be improved as low impedance conductor and transformers that are more efficient are installed; however, given the long lives of distribution assets, rapid improvement could not be reasonably expected.

9.3 Exactly how to measure the benefit would need to be considered. While losses are unaccounted energy, we would expect the attributed value to be much lower than (say) VoLL,

and closer to the cost of production (spot price). We would expect that the cost-benefit analysis of line loss improvement initiatives would generally be uneconomic in most cases.

- 9.4 It is also important to point out that EDBs are only able to control technical losses, and are unable to control reconciliation losses. EDBs currently report the sum of technical and reconciliation losses in information disclosure.

## 10 Implementing changes from the IM review

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### **Powerco CPP approach**

- 10.1 We support the Commission's proposal to broadly implement the revenue cap and wash-up mechanism in a manner consistent with the way in which Powerco's CPP requirements were drafted.

### **Volatility of recoverable costs**

- 10.2 We are unaware of any significant volatility in recoverable costs that will contribute to price shocks (to a greater extent than currently exists under the transmission pricing methodology).

### **Concerns about a move from ICP-based pricing to GXP-based pricing**

- 10.3 The Commission has stated in the Issues Paper that it holds concern about a change from the ICP-based pricing structures used by most EDBs to grid exit point pricing<sup>11</sup>. The Commission has not made clear, in the Issues Paper, the foundations for this concern and it is one that we do not share.

### **Irrigation pricing**

- 10.4 The Commission has stated that it currently has no information indicating whether the quantities for an EDB with a large irrigation demand could be volatile from dry or wet summers, to the extent of causing a price shock in a subsequent year.
- 10.5 Our irrigation pricing is independent of direct energy volumes, being a mix of fixed, capacity and demand based pricing. We, therefore, do not consider that the Commission's concerns apply to Aurora Energy.

### **Pricing evolutions**

- 10.6 We consider that the Commission should take a 'wait and see' approach to concerns that it holds over pricing evolution, given the Electricity Authority's cost-reflective pricing project.

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<sup>11</sup> Ibid at 1, paragraph G40.