Submission by Pat Duignan re Commission Draft Decision on Powerco CPP Proposal

Executive Summary

1. I am making this personal submission regarding the draft decision on Powerco's CPP proposal to customise its price and quality standards because the issues involved are significant matters of principle.[1] I contributed to the expert report by TDB Advisory to the Electricity Retailers Association of New Zealand on the Commission's Issues paper regarding the Powerco proposal, but this submission is not commissioned by ERANZ or any other party.

2. The Commission's decision on Powerco's CPP proposal is exceptionally important because it will set a precedent as the first CPP proposal justifying a higher revenue cap as necessary to stabilise the reliability of the network. (Orion's CPP was based on earthquake damage and resilience.)

3. Powerco states "*Our customers advise us they do not expect improved reliability where this comes at a cost (other than in poor performing pockets of the network). However, they would not accept deteriorating performance."*[2] The independent Verifier confirms "*Customers have clearly said that they do not want to pay for improved reliability*"[3].

4. Powerco assert that "*Our proposed CPP investments reflect* [customers' preference]*, by seeking to arrest deteriorating asset performance and stabilise SAIDI and SAIFI at present levels.*"[4]

5. The Verifier, however, advised the Commission "*the historical data shows a distinct trend of improving reliability. The historical expenditure shows that there has been an average increase of 11% per year in replacement expenditure since 2012 and an average expenditure of $3 million per year on the reliability programme. The forecast replacement expenditure for the CPP period is continuing to increase compared to the historical expenditure and the reliability programme is forecast to continue. Therefore, with a similar mix of forecast expenditure, it would be expected for the improving trend in reliability to continue, which Powerco has not forecast.*"[5]

6. Thus the Verifier contradicts Powerco's justification for the proposal as regards both the current reliability trend and reflecting the customer preference not to pay for improved reliability.

7. The Commission's draft decision, however, concludes that $1.27B - 96% of the proposed expenditure - "meets the expenditure objective". Based on this, the draft revenue path for the CPP period provides for a 40% increase in Powerco's operating plus capital expenditure compared to the previous 5 years. This is assessed as allowing Powerco to reduce the frequency and duration of outages by 5% and 10% respectively during the CPP period.

8. The revenue path corresponds to an immediate 4.4%[6] real (over and above inflation) price increase and results in an expected further 10% real increase at the start of the next regulatory period and potentially further increases in later periods.[7]

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[1] As a matter of disclosure, I record I was a member of the Commission from mid-2009 to December 2015.

[2] Powerco "*Customised Price-Quality Path – Main Proposal*" (12 June 2017), page 208.

[3] Verifer's report, "*Powerco's Customised Price Path Application*", (12 June 2017), section 2.2.5 page 29

[4] Powerco "*Customised Price-Quality Path – Main Proposal*" (12 June 2017), page 208.

[5] Verifer's report, Appendix E - Reliablity Modelling, page 216 as quoted in Commission Issues Paper, para 77.

[6] The price increase customers face as a result of higher capital expenditure depends on the cost of capital. Powerco proposed a higher revenue increase (5.7%) prior to a reduction in the market cost of capital.

[7] The Commission states "*Despite significant uncertainty around the extent of this second increase, we continue to be of the view that the distribution price uplift could be more substantial in the longer term due to the extent and timing of capital expenditure in the CPP period.*" (para 569 of Commission Draft Decision paper)

9. In this submission I suggest that:

    a. The Commission's process for evaluating CPP proposals requires a decision on "*appropriate service standards*" and <u>in the case of a proposal for higher expenditure to maintain or increase reliability</u> that decision needs to be based on a comparison of cost versus benefits. Information limitations do not remove the need for such a decision.

    b. The Commission is creating a precedent that, in response to an expenditure proposal that the Verifier and Commission judge increases rather than maintains reliability, when surveys indicate that customers do not want to pay for increased reliability, the Commission will test the technical efficiency of the expenditure and then define the quality standards that result from the proposal as appropriate service standards.

    c. The draft decision's central justification for overriding the expressed consumer preference - "*the value that Powerco's customers place on avoiding a deterioration in the reliability"* - needs to be supported by quantification of that value (ie the risk aversion of customers) and a cost-benefit analysis comparing that value with the cost.

    d. Undertaking cost-benefit analysis in the way proposed is not introducing a new evaluation criteria. It is just using a standard tool to assess whether a criteria is met. Nor is cost-benefit analysis a special methodology that would be appropriate only if detailed in the input methodologies. Since quantified cost-benefit analysis is not feasible in evaluating all CPP proposals it is understandable that such an analysis is not mandatory.

    e. The draft decision's economic argument that the Commission can be sure that the decision is in the long-term interest of consumers, without undertaking a cost-benefit analysis, does not provide that assurance.

    f. The recommendation that the Commission analyse the reliability-cost trade off in deciding this and similar CPP proposals would be consistent with the concept of DPP-CPP regulation. A CPP decision is the only opportunity to consider this key trade-off issue.

10. NZIER has provided the Commission with a fully operational cost-benefit model of the Powerco proposal. That model, based on Powerco's DPP and CPP forecasts, can be used to assess the net benefit or net cost to consumers of lower versus higher levels of expenditure taking into account the corresponding higher versus lower outage frequency and duration.

11. The draft decision states the Commission is not satisfied that the model is sufficiently robust nor "*that it is achievable to remedy the weaknesses*". I suggest this is a case of the "best being the enemy of the good". Uncertainties of the type encountered in estimating the net value to consumers of reliability investments are not, I suggest, a reason to abandon quantification of costs and benefits to instead rely on qualitative and often subjective judgements. The draft decision, however, appears to indicate a more difficult issue, namely an inability to determine what lower level of expenditure is required to maintain safety standards as opposed to reliability. That is problematic because it constrains the Commission's decision. Nevertheless a cost-benefit analysis would indicate the extent to which the the value of reliability benefits provide by increased expenditure fall short of the cost to consumers, if at all.

12. I submit that any shortcomings in the NZIER work could be remedied to enable the decision regarding the Powerco CPP to be informed by the results if the work was resourced appropriately, reflecting its importance.

The criteria for evaluation of CPP applications - the role of "appropriate service standards"

13. "Meeting the expenditure objective" is a key criterion for the Commisson's evaluation of CPP applications. The criterion is defined as follows:

    "*The test of whether the expenditure objective is met is whether the proposed expenditure reflects the efficient costs that a prudent supplier subject to price-quality regulation would require to:*

    a) meet or manage the expected demand for electricity distribution services, <u>at appropriate service standards</u>, during the Customised price-quality path regulatory period and over the longer term; and

    b) *comply with applicable regulatory objectives associated with these services.*"[8]

14. I suggest that in determining what expenditure level meets this criterion:

    a) The Commission needs to <u>use another of its evaluation criteria</u> to first determine what <u>level</u> as well as what <u>type</u> of service standards are appropriate for the specific CPP proposal under consideration; and

    b) The normal test of whether expenditure reflects efficient costs includes consideration of allocative and dynamic efficiency as well as technical engineering efficiency.

15. I do not have the resources to review all discussions regarding "appropriate service standards" but I have examined the report by Farrier Swier Consulting, "*Treatment of Expenditure in CPPs*", 3 June 2009, which proposed the above expenditure objective definition. That report does not discuss the appropriate service standards aspect of the definition in detail. I was party to the Commission adopting the definition but I did not recognise the implications analysed in this submission. I hope the Commission's final decision will discuss and resolve the issues I detail. The issues include whether there is a lacuna in the CPP IM but I am not offering a view on that.

16. It is relevant that the definition of the expenditure objective refers to whether *the proposed expenditure,* ie in aggregate, *reflects the efficient costs* [required] *to meet appropriate standards*. I suggest that testing whether an aggregate level of expenditure reflects efficient costs normally includes considering whether the additional costs proposed are allocatively and dynamically efficient ie provide commensurate benefits to consumers, to the extent such a test is feasible.

17. Both of the above issues would be resolved if the Commission decision on what are appropriate service standards is based on, or at least tested by, undertaking a cost-benefit analysis as to whether the additional costs to be allowed are matched or exceeded by the reliability benefits.

18. Absent consideration of allocative efficiency by way of a overall cost-benefit analysis, there is a risk of circularity in testing whether the expenditure objective is met. The circularity would arise where the components of the expenditure proposal are subjected to a test as to whether they are efficient in technical, eg engineering, terms but no test is applied as to whether the the additional costs are efficient as regards allocative and dynamic efficiency (ie does the overall benefit of reduced outage frequency and duration outweigh the cost to consumers of achieving

[8] *Electricity Distribution Services Input Methodologies Determination, 2012* [2012] NZCC 26, clause 1.1.4 - underlining added.

the reduction). The circularity would be revealed if the customised SAIDI and SAIFI levels were derived by considering the results of expenditure that has been determined to meet the expenditure objective. I suggest this would be the reverse of the logical order of decisions.

19. A CPP proposal could meet the expenditure objective, but definitively not be in the long-term interests of consumers, if the SAIDI and SAIFI levels were determined without consideration of allocative efficiency. For example, a CPP proposal could be based on achieving a very low level of outages that required very high levels of expenditure such that the cost to consumers outweighed the benefit. The expenditure proposed could, nevertheless, meet the test that it reflected the efficient costs that a prudent supplier subject to price-quality regulation would require to meet or manage expected demand for electricity distribution services with very low outage frequency and duration.

20. The above analysis suggests that the test that the expenditure level allowed for in the draft decision meets the expenditure objective is a necessary but not a sufficient condition for the Commission to be sure its draft decision is in the long-term interest of consumers.

21. Given that the decision as to what are appropriate SAIDI and SAIFI levels cannot be based on the criterion of what meets the expenditure objective, the issue is what should it be based on?

22. In certain cases, such as a CPP application justified as required by safety standards, the Commission could simply decide that the appropriate service standards correspond to the safety standards set by other regulatory bodies. In the case of a CPP proposal justified as required for earthquake resilience the service standard could be earthquake resilience standards specified by MBIE or another government agency. In such cases any responsibility for ensuring the standards are economically efficient lies with the other agencies that have determined the standards.

23. In the case of Powerco's CPP proposal, however, the main justification is to maintain or improve day to day reliability where the standards are the responsibility of the Commission rather than any other regulatory body.

24. I suggest that, for this type of CPP proposal, an examination of the CPP evaluation criteria, indicates the logical basis for deciding the appropriate levels for the service standards is what levels promote the purpose of Part 4, that is, are in the long-term interest of consumers. That would require relying on consumer preferences or the Commission undertaking an overall comparison of the benefits and costs.

25. The criteria are:

"*Evaluation criteria for customised price-quality path proposals*

a) The Commission will use the following evaluation criteria to assess each CPP proposal:

b) whether the proposal is consistent with the input methodologies;

c) the extent to which the proposal promotes the purpose of Part 4 of the Act;

d) whether data, analysis, and assumptions underpinning the proposal are fit for the purpose of determining a CPP;

e) whether the proposed capital and operating expenditure meet the expenditure objective;

f) *the extent to which any proposed changes to quality standards reflect what the applicant can realistically achieve taking into account statistical analysis of past SAIDI and SAIFI performance; and/or (ii) the level of investment provided for in proposed; and*

g) *the extent to which the CPP applicant has consulted with consumers on its CPP proposal; and the proposal is supported by consumers, where relevant.*"[9]

26. Criteria a) and c) are procedural and thus cannot determine the levels. Criterion e) caps the quality standards the Commission can set but is not a basis for deciding an increase in standards is in the long-term interest of consumers. Criterion d) cannot be a basis for the quality standards decision as explained in detail above. This leaves only criteria b) and f) as a basis for the decision and as regards f), the Verifier has stated that consumers do not want to pay for improved reliability.

The draft decision creates a precedent by overriding customer's stated preferences and needs the support of a cost-benefit analysis

27. An overall cost-benefit assessment is particularly relevant in the case of the draft decision because the decision appears to conflict with consumers' preferences regarding improved reliability. As noted, the Verifier's summary of stated customer preferences is "*Customers have clearly said that they do not want to pay for improved reliability*" but the draft decision provides for higher costs to improve reliability.

28. The Commission's rationale for its draft decision is:

"*We are conscious our draft decision would result in a price increase for consumers, and requires a modest improvement in reliability where some consumers may prefer no improvement in order to reduce costs.*

Having reflected on this, we consider our draft decision is appropriate and in the long-term interests of consumers as:

a) *Considered as a whole our draft decision provides for a reduction of $131M in expenditure … compared to the proposal Powerco first consulted with its consumers in January2017.*

b) *We consider much of the expenditure proposed by Powerco meets the expenditure objective and addresses specific needs – in particular stabilising network reliability over the longer term. Given the value that Powerco's customers place on avoiding a deterioration in the reliability, our view is that a modest improvement in Powerco's quality standards is appropriate.*

c) *There are practical difficulties in directing and fine tuning expenditure over a substantial and varied investment programme to meet a specific overall quality outcome. We consider programmes that could be specifically singled out as driving reliability improvements … are a small proportion of expenditure, and in our judgement represent significant value to consumers delivering reliability benefits over the long-term.*

[9] Commission Draft Decision paper, "*Powerco's proposal to customises its prices and quality standards*" (16 November 2017), para 54.

29. I suggest that the first argument is not a valid reason for overriding consumer preferences. The fact that Powerco originally proposed a level of expenditure substantially larger than required is a stark warning. It is evidence that the Commission's regulatory framework successfully incentivises investment. The risk to be addressed is over-investment. I suggest that avoiding that risk requires full consideration of consumer preferences and weighing of costs and benefits.

30. The second and third points in the above rationale appear to involve two key judgements. The first is the value that Powerco's customers place on avoiding a deterioration in the reliability, or in other words how <u>risk averse</u> the customers are. The second is the value to consumers of expenditure that delivers reliability benefits over the long-term, or in other words what <u>discount should be applied to long-term benefits which require incurring costs in the short term</u>.

31. I suggest it is difficult for the Commission to ensure its judgements on the the degree of risk aversion of customers and on the value of long-term reliability reflect the long-term interests of consumers without undertaking a cost-benefit analysis. In the absence of quantification, it is difficult for a group of decision makers to be sure their views of consumers' risk aversion and/or discount rates are internally consistent and are consistent with long-term estimates of the cost of capital and prices.

32. The Commission does face a difficult situation in that:

    a) The Verifier advises that customers have clearly said they do not want to pay for improved reliability;

    b) The Verifier advises that, contrary to Powerco's overall justification for the proposed expenditure, the historical data shows a distinct trend of improving reliability and it would be expected for the improving trend in reliability to continue, which Powerco has not forecast;

    c) The Commission has concluded that approval of 96% of the proposed expenditure would result in Powerco being able to reduce outages duration and frequency by 10% and 5% respectively;

    d) There are practical difficulties in directing and fine-tuning expenditure to meet a specific overall quality outcome; and

    e) The Commission concludes that "*Programmes that could be specifically singled out as driving reliability improvements … are a small proportion of expenditure*".

33. It does seem to me, however, that it is the responsibility of Powerco, not the Commission, to identify how to direct and fine tune its expenditure to comply with quality standards. The Commission is deciding the amount of expenditure that will be accommodated by the price path not the mix of expenditure. I suggest that once the Verifier and Commission have concluded that even 91% of the proposed expenditure would result in an improvement in reliability which customers do not want to pay for, the onus is on Powerco to explain how it will reduce its expenditure proposal to conform to customer preferences which Powerco defined as its objective.

34. In terms of the CPP IM, the first issue, as discussed above, is that testing whether a level of expenditure meets the expenditure objective requires a logically prior decision on appropriate service standards, which in this case are the quality standards. Secondly, the test that expenditure reflects efficient costs normally requires consideration of allocative efficiency.

35. It appears to me that the draft decision displays the circularity discussed earlier, in para 18. The decision is based on testing the technical efficiency of the various expenditure programmes, namely that each is a cost effective way of enhancing reliability. The Commission has then concluded that expenditure that meets this test, $1.27B, would allow Powerco to reduce outage duration and frequency by 10% and 5% respectively over the CPP period. In the draft decision, those outage outcomes have then been adopted as the appropriate service standards.

36. The Commission appears to consider that basing the price path on lower level of expenditure would require it to identify what reductions in programmes would be compatible with maintaining rather than increasing reliability. That in my view inverts the logical order of decisions and the onus of proof.

37. Arguably, if the Commission confirms the draft decision it will create a precedent that in response to an expenditure proposal that the Verifier and Commission judge increases rather than maintains reliability, when customers do not want to pay for increased reliability, the Commission will test the technical efficiency of the expenditure and then define the quality standards that result from the proposal as appropriate service standards.

The draft decision's discussion of cost-benefit analysis and the promotion of consumers' interest

38. Earlier submissions on Powerco's proposal recommended that the Commission base its decision regarding the proposal on a comparison of benefits and costs using the information provided by Powerco. Such an analysis would compare the value to consumers of the lower level of outage frequency and duration with cost of achieving this.

39. In response to these submissions the draft decision argues that "*the current framework does not require us to undertake a cost-benefit analysis of Powerco's full CPP proposal in order to accept or reject it.*"

40. I agree that the framework does not require undertaking a cost-benefit analysis in respect of <u>all</u> CPPs. I submit that, as explained above, the application of the expenditure objective does requires a explicit determination of what would be appropriate service standards. <u>In the case of the Powerco proposal</u>, the decision on appropriate service standards requires determination of SAIDI and SAIFI levels. As discussed, the logical basis for deciding what <u>levels</u> are appropriate is a comparison of benefits versus costs. I submit that, <u>in this case</u>, a cost-benefit analysis of the Commission's proposal for the Powerco CPP is logically necessary.

41. The Commission further argues:

"*We do not consider it appropriate to add a new evaluation consideration at this stage of the process. We have recently considered the framework that is applied to assess CPPs, as part of our input methodology review, and the use of cost-benefit analysis was not raised during that review. The use of cost-benefit analyses in this way is an issue that can be raised again for consideration in submissions at the time of the next review of the input methodologies.*

The purpose of setting and reviewing the input methodologies was to promote certainty and predictability around the rules to be applied in the context of Part 4 regulation. In our view, introducing additional evaluation considerations into the frameworks and criteria developed during the input methodologies review would risk undermining the certainty and predictability which the input methodologies are designed to achieve."

42. Undertaking a comparison of benefits versus costs is not, however, a new evaluation criteria. It is just a standard tool for assessing whether a criteria is met. Nor is cost-benefit analysis a special methodology that would be appropriate only if specifically detailed in the input methodologies.

43. The draft decision itself states cost-benefit analysis "*can have a role to play within the current framework to inform our assessment of a CPP proposal. For example, to assess whether elements of a proposal are likely to promote the long-term benefit of consumers*." The use of cost-benefit for these purposes is not mentioned in the input methodologies, which suggests that comparing cost with benefits is such a standard technique that it needs no mention in the input methodologies.

44. The draft decision states that the Commission is not satisfied that the model is sufficiently robust nor "*that it is achievable to remedy the weaknesses*". I suggest this appears to be a case of the "best being the enemy of the good", in as much as too stringent a standard of robustness would deny the Commission and consumers the benefit of decisions being informed by appropriate analysis. Arguably, there is a tension between the assessment that the Verifier's report on regarding what level of expenditure meets the expenditure test is robust[10] and the assessment that the information obtained is not sufficient to undertake a sufficiently robust cost-benefit analysis.

45. There has been extensive work on the value of lost load and the use of cost-benefit analysis in reliability investment decisions. There will always be limitations on the precision with which the available information allows estimation of the net value to consumers of reliability investments but that is the normal situation regarding many other aspects of price-quality regulation. I suggest that is not a reason to abandon quantification of costs and benefits to instead rely on qualitative and often subjective judgements.

46. The draft decision, however, appears to indicate a more difficult issue, namely an inability to determine what level of expenditure is required to maintain safety standards as opposed to reliability. That is problematic because it constrains the Commission's decision. Nevertheless a cost-benefit analysis would indicate the extent to which the the value of reliability benefits provide by increased expenditure fall short of the cost to consumers, if at all.

47. I submit that any shortcomings in the NZIER work could be remedied to enable the decision regarding the Powerco CPP to be informed by the results if the work was resourced appropriately, reflecting its importance.

48. It is significant that Wellington Electricity has provided a cost-benefit analysis of its CPP proposal. Thus Wellington Electricity sees an overall cost-benefit analysis as feasible and relevant to the Commission's decision on its proposal. This would tend to refute the argument that the information provided with a CPP application does not provide a robust basis to undertake a comparison of reliability benefits and costs. It also refutes the argument that undertaking a cost-benefit analysis would be incompatible with the objective of EDBs having an appropriate degree of predictability regarding evaluation of CPP proposals.

49. As noted earlier, the analysis set out above could be interpreted as indicating there is a lacuna in the CPP IM in regard to the determination of the "appropriate service standards", albeit that, as discussed, the IMs could not specify a single method for determination of "appropriate service

[10] Commission Draft Decision paper, "*Powerco's proposal to customises its prices and quality standards*" (16 November 2017), para X16.

standards" for all types of CPP proposals. If the Commission came to the view that there is a lacuna in the CPP IM the Commission would need to consider the various possible ways that could be addressed.

Can the Commission be sure its CPP decision is in the long-term interest of consumers without undertaking a cost-benefit analysis?

50. The draft decision asserts that the Commission can be assured that the CPP it sets will promote the long-term benefit of consumers without undertaking a cost-benefit analysis, arguing as follows:

    "*Expected demand at appropriate service standards will reflect the value that consumers attach to electricity distribution services supplied at a particular level of quality. [Testing against the expenditure objective] should ensure that consumer demand and relevant regulatory objectives are met at minimum cost. Expenditure that satisfies this objective would promote the long-term benefit of consumers.*"

51. "Expected demand" in this context is the demand for "electricity distribution services" or, in other words, the number of consumers prepared to pay the cost of being connected to the grid. What this argument demonstrates is that being able to connect to the grid at the prices resulting from the draft decision is worth more than not having access to the grid for the consumers who remain connected. By definition only consumers who derive more value from being connected will choose to be connected. In that sense the argument is a tautology. It is simply the observation that electricity distribution services are of high value and consumers have little, if any, alternative to paying the price set by monopoly suppliers.

52. Taken literally this argument implies the Commission can be satisfied that is promoting the long-term benefit of consumers because all consumers who choose to be connected to the grid are deriving net value from the connection. On this argument, setting any level of reliability, however high and expensive to achieve, would promote the long-term interest of consumers provide the corresponding expenditure was efficiently directed at attaining the reliability level, since all <u>remaining</u> customers would derive a net benefit from connecting to the grid.

53. Thus the argument does not provide assurance that the draft decision would promote the long-term benefit of consumers in general.

The Commission's consideration of the reliability-cost trade off in deciding a customised price path proposal is consistent with the concept of DPP-CPP regulation and is the only opportunity to consider that issue.

54. The intention of the Part 4 regulatory framework is that when a regulated supplier submits a CPP proposal the Commission will review all relevant aspects of the regulated supplier's operations and plans. By definition, a CPP proposal advantages the supplier, and the quid pro quo is that the Commission has the opportunity to assess the overall efficiency of supplier's proposal and reset the price-quality path on the basis of that assessment. The Commission may set a CPP with a lower price path with less or more stringent quality standards than the DPP, if the review of the overall efficiency of the supplier's proposal indicates that best achieves the objective of the

review. (The Commission has stated as "*Our review of Powerco's proposal is to ultimately satisfy ourselves that Powerco's proposal is in the long-term benefit of consumers*".[11]

55. In setting SAIDI and SAIFI for Powerco's default price-quality path (DPP), which applies until the start of the CPP, the Commission had no option but to apply a formula grounded in historic levels. The DPP is required to be set in a low cost way standardised across all EDBs and is therefore not compatible with the Commission trying to determine quality standards by analysing the reliability-cost (ie cost-quality) trade-off, because that is different for each EDB.

56. In contrast to the situation the Commission faces in setting a DPP, Powerco's CPP application provides information on the cost-quality trade-off. The application has as a key purpose achievement of better outages outcomes, ie lower SAIDI and SAIFI levels, than the outcomes that would result from a continuation of the DPP.

57. A CPP application of the type described will provide the information to enable a comparison between the likely SAIDI and SAIFI outcome from continuation of the DPP price path versus the SAIDI and SAIFI outcome from the Commission setting the price path proposed in the CPP (adjusted where the Commission disagrees with the CPP applicants proposal).

58. As discussed in para 44 above, I suggest the Commission does have the information to determine whether there is a net positive benefit from adopting the service standards resulting from the proposal and the corresponding CPP rather than continuing the price path in of the DPP[12]. It is difficult to see how the Commission could be sure it is promoting the long-term interest of consumers unless it does undertake that analysis.

59. As discussed, except where statutes or other regulatory bodies determine what standards are appropriate, it is difficult to identify any logical basis for the Commission to determine "appropriate service standards" other than by comparing the expected benefit of the improvement in service standards it believes would result from the CPP it proposes to set with the additional cost involved compared to the DPP that is being replaced.

60. In summary, this submission advocates that the Commission apply the CPP IM by first identifying what service standards for Powerco would be appropriate using a cost-benefit analysis applied to the data provided by Powerco, as illustrated to be possible by NZIER. That would then be the basis for the Commission to reconsider its draft decision and identify, within the limitations of available data, what combination of customised price path and SAIDI and SAIFI standards would be in the best long-term interests of consumers.

61. I note the CPP criteria require only that the CPP is in the long-term interest of consumers. Ideally, the Commission would identify what is in the best interests of consumers, to the extent that is feasible within the regulatory framework and available information.

Pat Duignan
15 December 2017

[11] Commission Issues paper, "*Invitation to have your say on Powerco's CPP proposal to change its prices and quality standards*" (18 August 2017), para 8.
[12] The Commission having received a CPP application is required to determine a price path but that price path could be the same as the DPP (with adjustments to the quality standards as the Commission see fit).