

# Draft decision

## Powerco's customised price-quality path

16 November 2017  
Commissioner Stephen Gale



# Overview

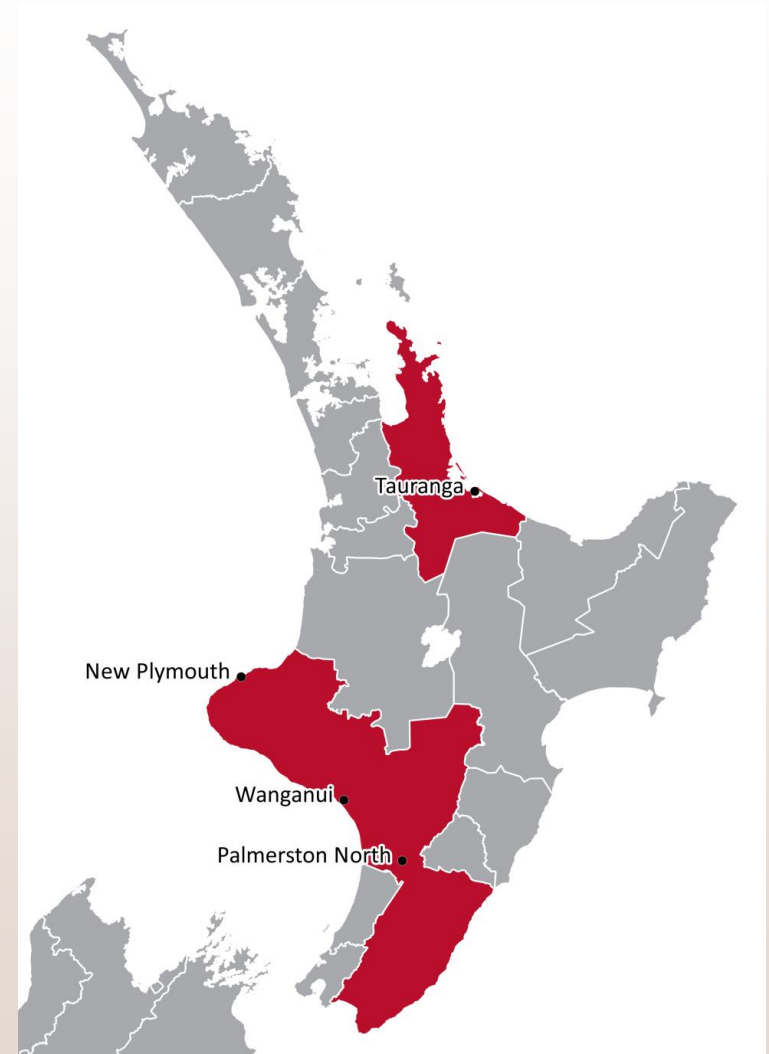
## This presentation covers:

- Powerco's proposal
- Assessment process
- Draft decision
- Impact on distribution charges and consumers
- Proposed quality standards
- Monitoring programme
- Consultation process



# Powerco's network

- Powerco is NZ's second largest lines company connecting to 330,000+ homes and businesses
- Many assets built in 1950s & 60s are reaching end-of-life
- Facing pressure from powering regions with strong population and economic growth



# Powerco's proposal

Applied for a customised price-quality path in June 2017

## Proposal

- \$1.32 billion expenditure over next 5 years, about \$390m more than previous 5 years
- Argues uplift is necessary to maintain current reliability levels and meet growing demand

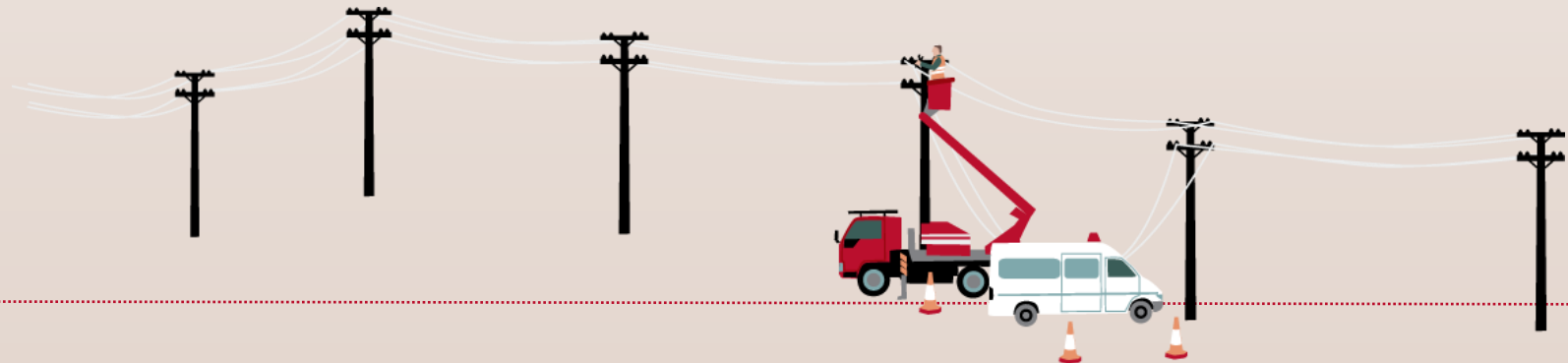
## Impact

- Initial 5.7% increase in revenues plus annual CPI adjustment
- Average consumer monthly bill increasing by \$3-\$4

# Assessment process

Powerco was required to consult with its consumers and have proposal reviewed by an independent consultant

- Consulted with consumers in early 2017 on a \$1.4b proposal
- Proposal then subjected to a robust review by independent verifier (Farrier Swier Consulting)
- Powerco revised proposal to \$1.32b following initial feedback from verifier
- Verifier's final findings concluded 91% of the proposed \$1.32b was reasonable



# Our review

## Ensured proposal is for the long-term benefit of consumers

- Tested the findings of the verifier including review by a second consultant (Strata Energy Consulting)
- Used verifier's findings to target our review, proportionate to scale of investment/level of concern
- Sought further information from Powerco and conducted site visits across their network
- Used specialist engineering advice in some areas (Strata)
- Sought views from interested parties in August Issues Paper

# Our draft decision

Satisfied investment needed to deliver a safe, secure and reliable network for long-term benefit of consumers

- Propose to allow \$1.27 billion of expenditure

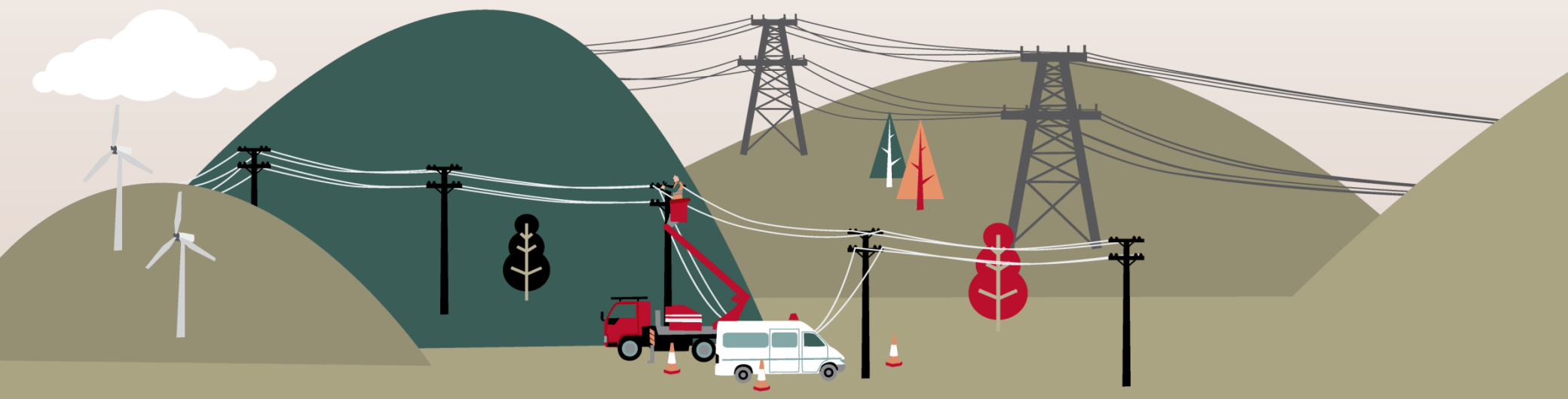
	Powerco proposal	Our draft
Opex	\$455m	\$446m
Capex	\$873m	\$825m
<b>Total expenditure</b>	<b>\$1.32b</b>	<b>\$1.27b</b>

- Consider investment needed now to stabilise network reliability over the long-term and minimise future expenditure
- Allows a slightly higher amount than the verifier based on our analysis

# How revenue will be recovered

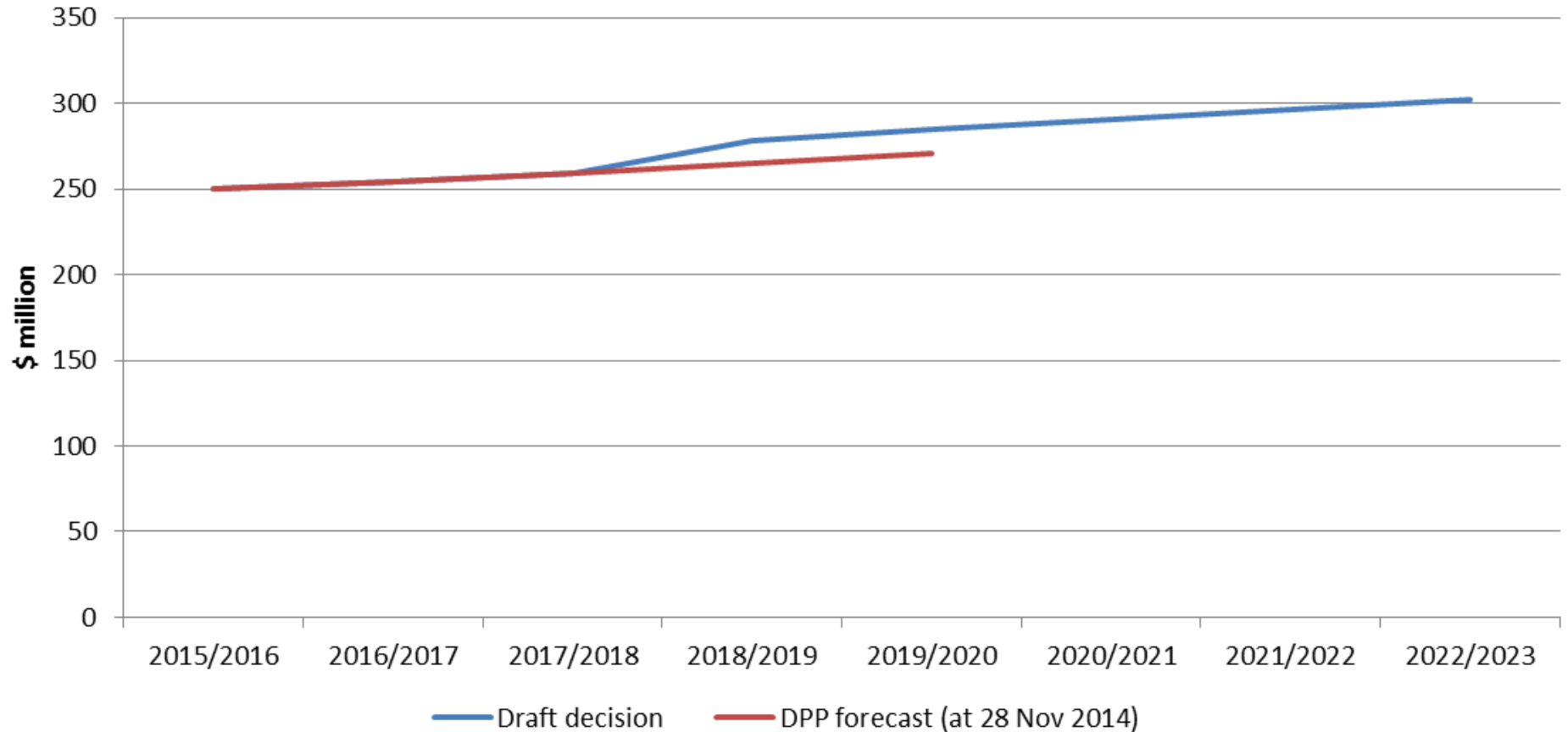
Annual maximum allowable revenue (MAR) that Powerco would be entitled to earn

- Initial 4.4% increase plus an annual adjustment for CPI
- Any under-recovery at the start of the period is likely to mean higher increases later in the period as Powerco catches up





# Illustrative price path



- The above lines show expected MAR. Actual prices during the period will include pass-through and recoverable costs, and the DPP actuals can differ from forecast

# Impact on prices

## We are conscious of keeping electricity affordable

- Long-lived assets require significant upfront investment, with full costs recovered over life of asset
- Average residential monthly bill increase by about \$2.70 in next 5 years
- We estimate an additional increase of around \$6 in longer term if investment forecasts eventuate



# Quality standards

Would require a small improvement in network reliability over the longer term

## Unplanned outages

- Propose an improvement by the end of the CPP period (5% for SAIFI and 10% for SAIDI)
- Powerco had proposed using historical performance

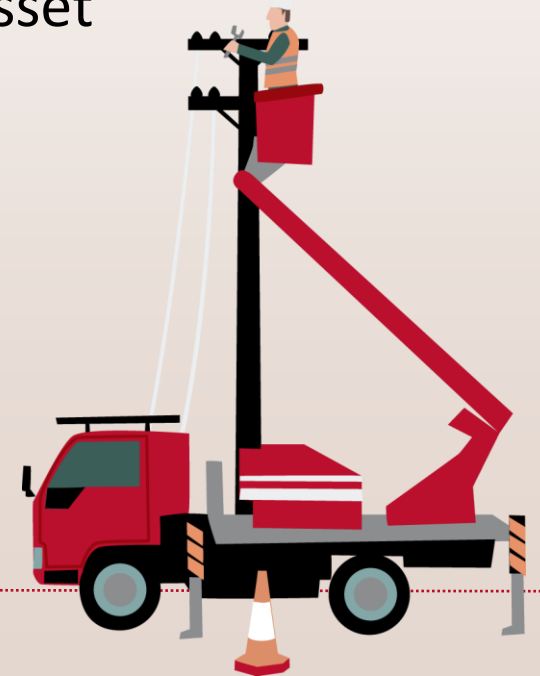
## Planned outages

- Propose using Powerco's own forecasts to take account of outages required for delivery of the investment programme
- Powerco had proposed no standard for planned outages as a way of addressing this

# Reporting against delivery

Powerco will be required to report on how tracking against proposal to provide transparency around its performance

- Publish an annual CPP Delivery Report
- Hold annual stakeholder events to explain its progress
- Attend annual technical meetings with Commission to discuss issues
- Key feature will be how Powerco improves its asset management practices over course of upgrade



# Have your say

- Submissions on draft decision due 15 December
- Email [powercocpp@comcom.govt.nz](mailto:powercocpp@comcom.govt.nz)
- Cross submissions in January
- Final decision by 29 March 2018
- New prices/quality standards apply from 1 April 2018



# Questions

