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Your ref:

Our ref:

Mr Dane Gunnell
Manage, Price Quality Regulation
Commerce Commission
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Dear Dane

DPP3 QUALITY STANDARDS – OPTIONS TO ADDRESS EXPECTED NON-COMPLIANCE IN RY2021

In our 9 October submission responding to the Commission's *Updated Draft Models: Companion Paper*, we explained that the draft DPP3 decision on quality standards set a compliance target that Aurora Energy was very unlikely to meet in the first year of DPP3 (RY2021), particularly in respect of unplanned reliability.

Having reviewed the final decision, we remain of the view that Aurora will not be able to comply with the DPP3 quality standards in RY2021.

The Commission has indicated that, in these circumstances, it would be appropriate for an EDB to apply for a quality standard variation under clause 4.5.5 of the IMs. We have reviewed the requirements for a quality standard variation and consider that there are strong grounds to modify the quality standards that apply to Aurora. However, a complicating factor in Aurora's case is that we intend to apply for a CPP (which will include modified quality standards) in June 2020 to commence on 1 April 2021. As a result:

- were we to apply for a quality standard variation, we would expect that it would only apply for a single year (RY2021) and would then be superseded by the CPP; and
- there is a high risk of duplicated effort on the part of both Aurora and the Commission, as the evaluation of the quality standard variation will be followed immediately by the evaluation of the CPP proposal.

We would therefore like to explore with the Commission whether there are alternatives to a full quality standard variation proposal that would; (a) give Aurora certainty regarding the consequences of failing to meet the DPP3 quality standards in RY2021, while (b) avoiding unnecessary duplication of effort both for Aurora and the Commission.

Compliance with the DPP3 quality standards

The Commission has set separate quality standards for planned and unplanned interruptions for DPP3. The unplanned quality standard sets an annual limit of 81.89 SAIDI and 1.4687 SAIFI.

The planned quality standard sets a limit of 979.80 SAIDI for the five years of DPP3. However, because Aurora expects to transition to a CPP commencing 1 April 2021, the planned quality standard is pro-

rated to reflect the shorter period that Aurora will be on the DPP. Pursuant to clause 9.4, Aurora will be subject to adjusted limits of 195.96 SAIDI and 1.1077 SAIFI for planned work in RY2021.

Table 1: Summary of applicable quality standards in RY2021

	SAIDI limit	SAIFI limit
Planned	195.96	1.1077
Unplanned	81.89	1.4687

In our July 2019 submission on the DPP3 draft decision we submitted that quality standards must be reasonably capable of compliance, and that it would be inappropriate to expose EDBs to the risk of pecuniary penalties in circumstances where compliance is not reasonably possible. The Commission's response in the Reasons Paper accompanying the DPP3 final decision is that:

- to the extent inadequate asset management has led to a deterioration such that an EDB is unable to comply, it is appropriate that that EDB should improve its performance; and
- an option to apply for a quality standard variation is available.

We acknowledge that historic underinvestment is the principal driver of Aurora's non-compliance. But, importantly, our forecast network performance in RY2021, while unlikely to result in compliance, is a step on our current journey to improved network reliability.

As the Commission knows, Aurora is in the midst of a substantial programme of re-investment in the network to address network reliability (amongst other matters, including safety). This programme of work has elevated levels of planned SAIDI/SAIFI in the short term. As set out in our CPP consultation materials, we expect planned SAIDI to remain elevated for at least the next several years and then begin to decline as we move into a steady state.

In parallel, we are forecasting a gradual improvement in our unplanned SAIDI/SAIFI over the course of the CPP period. But much of the work we are doing is necessary to arrest the deterioration and stabilise network performance, rather than to significantly improve performance. While we expect some unplanned reliability improvement as a consequence of our reinvestment programme, there is no realistic prospect of achieving more substantial improvement in the short term.

Furthermore, while we expect our current programme to improve network reliability over the longer term, there are realistically no actions that we could take at this point that would result in compliance in RY2021. So, while we acknowledge the obligation to improve our performance, the fact remains that compliance with the DPP3 quality standards in RY2021 is beyond our capability.

Those circumstance suggest that the appropriate way forward would be a quality standard variation, as signalled by the Commission. The IMs provide that, in assessing a quality standard variation, the Commission will consider: (a) the extent to which the proposed variation better reflects the realistically achievable performance of the EDB over the remainder of the period, and (b) the extent of the EDB's consultation with consumers, and whether consumers support the variation.

Clause 4.5.5(2) of the IMs provides that an EDB must demonstrate what level of network performance is realistically achievable with reference to statistical analysis of past SAIDI and SAIFI performance, and/or the level of investment provided for in the DPP determination. Aurora will incur expenditure significantly in excess of the DPP3 expenditure allowances, as we have explained in our submissions. This, then, is not a question of what level of network performance is achievable within the constraints of the DPP expenditure allowances, but rather, this is a question of what level of network performance is possible at this point in Aurora's reinvestment programme.

Applying for a quality standard variation is likely to result in duplicated effort for both Aurora and the Commission

Aurora will submit its CPP application in June 2020. We are currently in the midst of consultation, and once that is complete, we will be fully engaged with verification and refining our proposal as we approach the submission date. Our CPP application will include proposed quality standards reflecting what we believe we can realistically achieve over the CPP period.

The IMs require that Aurora provide, as part of its proposal for a quality standard variation:

- an explanation of the reasons for the proposed quality standard variation;
- an engineer's report on the realistically achievable performance of the EDB over the DPP regulatory period;
- demonstration of the estimated effect of the proposed variation by use of historic data; and
- demonstration of any consumer consultation undertaken by the EDB in respect of the proposed variation.

The required content is similar to the information that Aurora is required to include in its CPP application. The key difference from a process perspective is the requirement to include an engineer's report in the quality standard variation proposal. In the CPP context, the verifier undertakes this role.

Given the similarity between the requirements, preparing a fully compliant quality standard variation proposal in parallel to finalising the CPP application would involve significant duplication of effort on the part of Aurora. Assuming that Aurora submits its quality standard variation proposal early in the new year, it is also likely that the Commission will have to review the quality standard variation and CPP application in parallel.

That duplication of effort seems disproportionate given that Aurora is only seeking to address a single year of the DPP - RY2021. We would therefore like to explore; (a) whether there are alternatives to a formal quality standard variation that would give Aurora sufficient certainty regarding the treatment of non-compliance in RY2021 while avoiding duplicated effort; and/or (b) whether the Commission is open to a modified approach to the quality standard variation that would enable Aurora to leverage the work that is already underway in relation to the CPP. That might involve, for example:

- relying on the CPP consumer consultation for the purposes of evaluating the quality standard variation; and
- relying on the CPP verifier's report in lieu of commissioning a separate engineer's report for the purposes of the quality standard variation.

We would appreciate the opportunity to discuss these options with you as soon as possible so that we can factor the Commission's views into our planning.

Yours sincerely



Alec Findlater

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