Grey Power Federation Zone 4

Submission on the Commission's draft decision on the application by Powerco to customise its' price and quality standards on behalf of Grey Power Federation Zone 4.

Grey Power New Zealand Federation Inc. is a non-sectarian and non-party political, advocacy organisation that aims to advance, promote and protect the welfare and well-being of older people. Zone four represents the associations in the lower North Island.

We note with concern that excess winter mortality amongst the elderly is directly correlated with the ability to heat homes adequately. We therefore have a direct interest in the cost of electricity distribution since this represents, on average a third of the cost older people face in paying their electricity bills.

Submission

We acknowledge that the work PowerCo seeks to undertake is necessary to maintain an adequate and resilient distribution network. We also accept that the CAPEX and OPEX figures derived by the Commission and the independent verifier represent the expenditure required to meet the PowerCo's stated objectives. However we would query the basis of these objectives, in particular the assumptions of growth in distribution capacity. We consider on the basis of available evidence that the evolution of microgrids and the continuing exponential fall in the cost of battery storage, that distribution networks' need to over build for peak capacity (spikes) will reduce drastically within the lifespan of the proposed CPP.

We also fully support the Commissions determination that planned interruptions should be included in the quality standard.

However our main concern is with the proposed price increases to consumers. We note that for many residential consumers, the price paid for electricity is of critical concern, and for the reasons mentioned above is a key factor in both continued health and quality of life.
We note that the Commission states its' starting point to be "*the purpose of Part 4 of the Commerce Act* ***(the Act)*** *– to promote the long-term benefit of consumers."* and feel that the draft determination regarding price increases fails to meet this objective for two reasons.
First, as noted by the independent assessor,

"increased capex and opex [sought] is required to stabilise asset performance through addressing a rising number of asset defects as assets wear out and to support good practice asset management such as on systems to provide better quality information and analysis, which are expected to reduce expenditure needs in the longer term " They then further note that "…Powerco **intends** to implement good asset management practices."(my emphasis).

We can only conclude that PowerCo does not currently, and has not in the past, effectively managed their assets in a manner that a prudent and efficient organisation in a competitive market place would be expected to do, in order to avoid the situation that PowerCo now finds itself in. An analysis that we note the Commission shares when it states that *"current activities and expenditure is arguably below that associated with prudent practice"*.

From this we can only assume that PowerCo has deliberately avoided both OPEX and CAPEX expenditure on maintaining assets in order to bolster or maintain shareholder returns.

We submit that to allow the current expenditure now required to be recovered from consumers is contrary to the long term benefit of consumers since it does not reflect the reality that would occur in a competitive market place, and effectively encourages poor management practice in the expectation of a bail out from the public purse in order to meet its obligations.

Secondly, we are vehemently opposed to the "*likely … second and more material price increase, driven by the capex spend during the cpp period … to the subsequent pricing period*."

The practice of assessing a 'reasonable' ROI on the asset value of a monopoly supplier is tantamount to the encouragement of rent seeking. It provides a circular practice of anti-competitive behaviour which the regulations imposed by the Commission should prevent, not condone.

To be explicit, in this case PowerCo seeks to recover the cost from consumers of bringing its' asset base up to current standards of quality and resilience, and then argues that the out years cost to consumers of service delivery should be based on that re-valued asset base.

We consider this proposed practice not only anti-competitive but directly exploitative and urge the Commission to reject this part of the proposal outright.

Contact point for queries

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