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By email: regulation.branch@comcom.govt.nz

POWERCO – CROSS SUBMISSION ON DPP RESET ISSUES PAPER

Powerco Limited (Powerco) welcomes the opportunity to provide feedback on the views submitted in relation to the Commerce Commission's consultation paper *Default price-quality paths for electricity distribution businesses from 1 April 2020: Issues paper*.

Attachment 1 has a summary of our feedback and Attachment 2 has more detailed comments about the submission points on the issues paper. If you have any questions on this submission, please contact Nathan Hill (Nathan.Hill@powerco.co.nz).

Yours sincerely

A handwritten signature in blue ink, appearing to be "Stuart Marshall".

Stuart Marshall
General Manager – Regulation and Commercial

Attachment 1: Summary of Powerco's feedback

Topic	Powerco response
Customer expectations	<ul style="list-style-type: none"> • We agree with Vector that transformational changes occurring in the industry (eg new technology) are creating an increasingly important need for EDBs to effectively engage with consumers <ul style="list-style-type: none"> ○ A greater understanding of consumer behaviour, preferences and expectations will help EDBs cost effectively deliver the services consumers demand • It is encouraging that both ERANZ and Mercury noted that retailers can help provide valuable consumer insights <ul style="list-style-type: none"> ○ We believe there is value from collaboration between retailers and EDBs on those aspects of our businesses which overlap
Operational expenditure partial productivity	<ul style="list-style-type: none"> • We agree with Aurora, ENA, Unison and Wellington that an evidence-based approach is required to establish a reasonable estimate of expected operational (opex) expenditure partial productivity
Operational expenditure step-change criteria	<ul style="list-style-type: none"> • Vector's submission echoed our concerns that the opex step-change criteria adopted by the Commerce Commission (Commission) is unnecessarily restrictive <ul style="list-style-type: none"> ○ We think it is important that the appropriateness of the current step-change qualifying criteria is reconsidered during the default price-quality path (DPP) reset consultation
Transparency of major transactions	<ul style="list-style-type: none"> • We agree with Mercury's view that there may be benefits from increasing the transparency, scrutiny, and accountability of distribution investment decisions
Economies of scale	<ul style="list-style-type: none"> • We support Genesis' view that economies of scale should be pursued to minimise costs
Live line work	<ul style="list-style-type: none"> • We agree with Vector that reliability metrics in DPP3 should have regard to the new and evolving operating environment of EDBs which includes managing workplace health and safety to a heightened risk management standard
Customer service lines	<ul style="list-style-type: none"> • We support the consideration of customer service line costs in DPP3, as raised by ENA and Vector

Attachment 2: Commentary on submission points

Customer expectations

Technology developments and evolving consumer expectations will change the future technical and operating environment of EDBs and the wider industry. This transformation will also introduce new and additional costs. For example, managing multi-directional energy flows both to and from consumers will likely require significant investment in sophisticated monitoring and control systems.

We agree with Vector that these changes are creating an increasingly important need for EDBs to effectively engage with consumers. To deliver the services consumers demand, and to do this cost effectively, will require a greater understanding of consumer behaviour, preferences and expectations.

We consider that market participants have a role in drawing out those preferences through consultation and engagement, and via innovation and experimentation. Additionally, we think that enhanced/ lower cost access to smart meter data and improved visibility of the low voltage parts of networks will help EDBs efficiently meet the changing needs of consumers.

It is encouraging that both ERANZ and Mercury noted that retailers can help provide valuable consumer insights. We will continue to actively seek opportunities to engage with retailers because we believe there is value from collaboration between retailers and EDBs on those aspects of our businesses which overlap. The best insights will be evidence based and result from a comprehensive programme of customer research, consultation, direct engagement and network innovation research and development.

Operational expenditure partial productivity

We agree with Aurora, ENA, Unison and Wellington that an evidence-based approach is required to establish a reasonable estimate of expected operational expenditure partial productivity.

The Input Methodologies (IM) review exercise in 2016 was excellent because it was based off experience. We think that the Commission should use this evidence based decision-making approach in its decision on opex partial productivity. This approach would suggest expert analysis to measure the opex partial productivity of New Zealand EDBs should be undertaken.

Operational expenditure step-change criteria

Vector's submission echoed our concerns that the opex step-change criteria adopted by the Commission is unnecessarily restrictive. The potential for several opex step changes in DPP3 increases the relevance of the step change criteria. Given this increasing relevance, we think it is important that the appropriateness of the current qualifying criteria is reconsidered during the DPP reset consultation.

Transparency of major transactions

Powerco agrees with Mercury's view that there may be benefits from increasing the transparency, scrutiny, and accountability of distribution investment decisions. Pragmatism is a key lens to apply in this area because of the potential increased costs for distributors – whether it be increased consultation and analysis as part of internal processes or the impact on data management and hardware requirements eg to measure and collect data on the low voltage network.

Our submission on the Electricity Price Review¹ suggested options to improve confidence around transparency and scrutiny are to:

- *Move all large distributors on to an individualised price/quality path regime.* This would provide a high degree of scrutiny of network business that serve the most customers and address concerns about barriers to applying for a customised price path. This would allow the default price/quality path to be tailored for the needs of smaller distributors.
- *Market testing of major investments by distributors.* Applied pragmatically, the consideration of non-transmission alternatives to network solutions has the potential to promote efficient distribution network investment for the long-term interests of consumers. This would be achieved by enhancing consistency, transparency and predictability in planning processes.

In general, we think improvements in these areas (with benefit proportionate to cost) would help give stakeholders confidence that distributors are providing safe and reliable network services at the lowest effective cost.

Economies of scale

Genesis noted that rising costs mean economies of scale are urgently needed to keep electricity affordable. We agree that increases in costs are a concern. What this means is that distributors, and the industry, need to be able to explain and justify the rationale for changes to the cost and quality levels of services provided.

To help give stakeholders confidence that distributor costs are efficient, we think it is sensible for the regulator and government to explore the potential economy of scale benefits from EDB amalgamations. If material benefits are found, there may be a role for the government to help facilitate and expedite amalgamations.

Initial investigations could make use of benchmarking studies to demonstrate and explore the reasons for cost variations. The recent TDB Advisory study² was a useful exercise to begin exploring this issue.

We acknowledge this issue is probably more relevant to the Electricity Price Review than it is to the DPP reset.

Live line work

Powerco agrees with Vector's view that reliability metrics in DPP3 should have regard to the new and evolving operating environment of EDBs which includes managing workplace health and safety with an 'as low as reasonably practicable' approach for a heightened risk management standard. Recent analysis of historical Powerco data suggests changes to our live line work practices that followed the introduction of the Health and Safety at Work Act have had a significant impact on planned SAIDI and SAIFI.

We agree with Vector that:

- EDBs are the best judge as to when different hazard prevention approaches should be adopted

¹ Powerco submission on the Electricity Price Review First Report, 23 October 2018

² <https://www.tdb.co.nz/wp-content/uploads/2018/09/Efficiency-Gains-from-EDB-Amalgamation.pdf>

- the regulatory framework should not limit the judgement of EDBs to make prudent safety related decisions.

Customer service lines

We support the consideration of customer service line costs in DPP3, as raised by Vector and ENA. Powerco's increase in planned outages over coming years will affect around 40% of connections to our network. The visibility and state of the customer service lines connected to our network will impact our ability to deliver outages on time and budget given the need to prioritise safety issues that arise. The industry will need to develop a long-term coordinated approach to managing customer service lines that balances safety, customer outcomes, and reliability.