



# **Powerco's proposal to change its prices and quality standards**

*A submission to the Commerce Commission*

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Trustpower Limited welcomes the opportunity to provide a submission to the Commerce Commission as part of its consultation on Powerco's proposal for a customised price-quality path.

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## 1 Overview of the submission

- 1.1.1 Trustpower Limited (Trustpower) welcomes the opportunity to provide a submission to the Commerce Commission (the Commission) on its consultation on Powerco's proposal for a customised price-quality path (the Consultation Paper).
- 1.1.2 We understand that Powerco has submitted a customised price-quality path (CPP) proposal to the Commission that, in its view, will allow it to undertake the required investment to continue to meet customer needs. The Commission, in assessing that proposal, is now seeking feedback on a number of issues, including:
- a) Relying on the verifier's findings;
  - b) Treatment of planned and unplanned outages;
  - c) Service measures that are important to consumers;
  - d) The long-term pricing impact of Powerco's proposal;
  - e) The applicable WACC;
  - f) Asset health and criticality;
  - g) The proposed increases in network evolution capex;
  - h) Powerco's opex forecasts; and
  - i) Deliverability risk.
- 1.1.3 Our submission does not provide feedback on all of these issues, however, we make a number of comments, principally to:
- a) Encourage the Commission to consider the implications for Powerco's CPP of some of the wider systemic issues that have been identified as part of other current regulatory consultations, including:
    - i. Transparency and information disclosure; and
    - ii. The robustness of the electricity distribution businesses' (EDBs) asset management processes;
  - b) Encourage the Commission to explore alternatives to Powerco's proposed quality measures and standards;
  - c) Encourage the Commission to delineate between the two distinct geographical areas that Powerco operates in; and
  - d) Support Powerco's proposed clarification of the definition of the distributed generation allowance.
- 1.1.4 We also support the report by TDB Advisory attached to ERANZ's submission to the Consultation Paper. In particular, we believe that the Commission should:
- a) Undertake a cost-benefit analysis (CBA) of the proposed CPP (or a variation that is in the interests of consumers), compared with the counterfactual, being the default price-quality path (DPP) over the same period;
  - b) Establish an asset criticality framework in order to assess the urgency of the proposed expenditure. This will be particularly important to inform decisions that are dependent on uncertain demand growth;
  - c) Ask Powerco to explain its views and strategy regarding the evolution of its network by posing a number of questions. These answers should be carefully considered, in light of the current issues surrounding the unclear demarcation between lines and

generation/retail, when making a decision as to the extent of expenditure granted for network evolution.

1.1.5 We refer to the reasoning outlined in that report for further information on these points.

## **2 Wider systemic issues**

2.1.1 We note that Powerco's CPP proposal touches on a number of wider systemic issues that have been identified within the scope of other current regulatory consultations, including the Commission's review of related party transactions.

2.1.2 We believe that these issues should be considered more broadly in the context of all regulated entities to ensure outcomes that are for the long-term benefit of consumers are achieved.

2.1.3 In our view, transparency and information disclosure, and the robustness of the EDBs' asset management processes, are two issues most relevant to the CPP. We discuss these below.

### **2.2 Transparency and information disclosure**

2.2.1 Powerco (and other regulated entities) must demonstrate to the Commission that they are ensuring outcomes that are for the long-term benefit of consumers are achieved. The Commission is responsible for identifying areas where the regulated entity may have an opportunity and motive to not act in the best interests of consumers and, based on its assessment of the risk, to ensure that the regulatory arrangements are adequate to mitigate that risk.

2.2.2 This is particularly important as regulated entities have a statutory obligation to operate as successful businesses,<sup>1</sup> which includes ensuring profitability and protecting shareholder value. Even exempt EDBs have commercial motives to an extent, although these are potentially tempered due to the fact that consumers benefit in their alternate roles as beneficiary-owners.

2.2.3 Information disclosure is an important tool to predict, and measure, whether outcomes that are for the long-term benefit of consumers will be, and have been, achieved. This is particularly relevant as EDBs should be providing details of anticipated network expenditure and network constraints in an accessible and user-friendly format. One suggestion for achieving this is to adopt a "heat map" approach like that used in the National Electricity Market. This would provide the market with visibility of upcoming opportunities, and better enable suppliers of innovative alternative solutions to come forward and offer potentially more efficient options to the network service. Most importantly, the transparency of relevant information relating to decision making, including option selection and details of business cases for investment decisions, will enable interested parties, including the Commission, to make an assessment of whether a decision was made for the long-term benefit of consumers.

2.2.4 While Powerco may be more advanced than other EDBs with respect to providing information to the market, any further improvements in this area will only serve to better the outcomes for consumers. Accordingly, we urge the Commission to consider transparency and information disclosure when determining the final Powerco CPP, and whether any further improvements may be beneficial.

### **2.3 Robustness of EDBs' asset management processes**

2.3.1 One area in which improvement is definitely possible for Powerco (and all regulated entities) is with respect to the quality of Asset Management Plans (AMPs) and network planning

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<sup>1</sup> Energy Companies Act 1992; s36.

information. Currently AMPs are a more technical, and less accessible, document for many parties. Most importantly, they provide limited information around decision making.

- 2.3.2 A broader example, in the context of regulated gas transmission companies, illustrates some of the challenges currently encountered with the AMPs produced by regulated entities.
- a) Currently the gas industry is working together to develop a new proposed design for gas transmission access.<sup>2</sup>
  - b) The proposed new arrangements for access products will result in gas mass market retailers taking on unmanageable financial risk and liability (in some circumstances) associated with any congestion that might arise within the pipeline.
  - c) Under the current AMPs there is limited transparency around the timing for resolving pipeline congestion, and in some cases, where congestion will likely be arising.
  - d) If the new transmission access design is adopted, it will be vital that full transparency of where congestion is anticipated to arise and the rationale that has underpinned decisions around when congestion will be resolved, is provided in AMPs going forward. Otherwise, it will be uncertain that outcomes that are for the long-term benefit of consumers have been achieved.
- 2.3.3 Ensuring quality AMPs and network planning will also ensure that where a regulated entity decides to apply for a CPP, it is in a good position from the outset to prepare its application. This is because all the necessary information will already have been prepared and will simply need collating. This will save significant effort and cost to the regulated entity.
- 2.3.4 We support the Commission in considering whether the current arrangements for AMPs and network planning are appropriate, and whether the standards need to be improved. We note that the outcomes of the Powerco CPP will set the scene for other regulated entities going forward.

### **3 Alternatives to Powerco's proposed quality measures and standards**

- 3.1.1 Powerco has proposed to effectively keep the existing quality path, retaining existing SAIDI (average duration that a customer is without power every year) and SAIFI (average number of times a customer would experience an outage in a year) measures, with existing incentive and compliance approaches being also maintained.
- 3.1.2 However, unlike the existing quality path, where planned and unplanned outages have an equal 50% weighting, Powerco is proposing that no weight be given to planned outages (i.e. 0% as opposed to the current 50% weighting). It is proposed that all weight (i.e. 100%) be placed on unplanned outages. This is so that Powerco has the required flexibility to complete its work programme.
- 3.1.3 Powerco considers that this also removes any incentive to not deliver the required works under the CPP, and allows more efficient forward planning and field workforce utilisations (as restrictions on planned work will not adversely impact work scheduling or availability of shutdowns).
- 3.1.4 We believe that there should be minimum standards for both planned and unplanned outages, but consider that these may best be achieved by decoupling planned and unplanned outages, and having separate measures for each. We discuss such measures below.

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<sup>2</sup> See <http://gasindustry.co.nz/work-programmes/transmission-pipeline-access/developing/complete-draft-gtac/>.

## 3.2 Treatment of planned outages

- 3.2.1 We struggle to see how having no measure for planned outages is in the best interests of consumers. Fundamentally, consumers want a reliable source of power. Powerco's Colmar Brunton poll<sup>3</sup> identified that consumers are more comfortable with planned outages as they are able to plan around the outage provided that they receive notification in advance. However, this may start to wear thin after multiple planned outages over a prolonged period of time. This is also reflected in the PwC survey<sup>4</sup> which illustrates the value that consumers place on not experiencing outages.
- 3.2.2 Further, unlike Powerco, we do **not** believe that having a quality measure for planned outages would:
- a) Unduly restrict Powerco's flexibility and ability to complete its work programme. We believe that Powerco should be incentivised to undertake its works in a way that minimises any disruptions for consumers, and that it could do this via effective and efficient forward planning; nor would it
  - b) Disincentivise Powerco from delivering the required works. There is every incentive for Powerco to complete the works so that they can enter the regulated asset base (RAB).
- 3.2.3 We suggest that separate SAIDI and SAIFI measures for planned outages be applied over the CPP period. These standards could be guided by forecast outages, which we would expect Powerco to have considered in weighing up its investment options and plans. There should also be a quality standard specifically around providing timely information to retailers and consumers about planned outages. We discuss this further in section 3.4.

## 3.3 Treatment of unplanned outages

- 3.3.1 We would expect that the unplanned outage measure should improve over time as investment in the network occurs. As such, we find Powerco's proposal that the measure reflect historical deteriorating levels hard to justify. We note that Powerco considers that it would be challenging to stabilise the current levels of performance, and also notes that there is a lag between capital and maintenance works, and network improvement. However, the proposed works are aimed at improving the current levels of performance, and we believe that this should be reflected in the unplanned outage measure.
- 3.3.2 Powerco should be able to demonstrate the expected improvements to SAIDI and SAIFI over time resulting from their investment. These improvements should have been forecast to justify the proposed investment, and should be demonstrated to the Commission. Accordingly, we consider that the minimum standard for unplanned outages should recognise that over the CPP period the network should become more resilient. This could be achieved through reducing the SAIDI and SAIFI for unplanned outages on a sliding scale over the CPP.

## 3.4 Communication regarding outages to consumers

- 3.4.1 Powerco has also received consumer feedback about the importance of communications around both planned and unplanned outages, including through effective use of mobile communication and social media.

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<sup>3</sup> Outlined in section 5.7.2 of Powerco's Main Proposal.

<sup>4</sup> Outlined in section 5.7.3 of Powerco's Main Proposal.

- 3.4.2 We note that retailers will typically be a consumer's first port of call during an outage, and as a result may be best placed to provide communication regarding outages to their customers. However, in order to do so, retailers would require timely information, including:
- a) the nature of the outage, including the affected area,
  - b) the cause of it,
  - c) the expected start date and time (for planned outages), and
  - d) the expected duration.
- 3.4.3 For planned outages, we would expect to receive this information at a minimum notice period prior to the outage. An appropriate notice period for planned outages might be at least 4 business days, in line with the Electricity Authority's Model Use-of System Agreement.<sup>5</sup> There could perhaps also be a best endeavours seven days notification requirement. We note that any minimum requirement may need to be longer than 4 working days in the circumstance where a medically dependent customer will be impacted by the outage.
- 3.4.4 We support the Commission in:
- a) determining an appropriate notice period for planned outages that ensures that consumers (particularly medically dependent customers) and business operators have enough time to make alternative arrangements;
  - b) considering whether there should be a reporting requirement for the maximum length of an outage (planned and unplanned), for example 12 hours. This would ensure discipline on Powerco for restoring power within this time and limit the impacts to customers. We note that similar arrangements are adopted in other jurisdictions such as West Australia and the United Kingdom, though they are often linked to compensation being required for customers who experience outages longer than the defined length; and
  - c) considering whether an additional quality standard should be introduced to ensure that PowerCo continually provides timely outage information to impacted customers and retailers. This would ensure that expenditure that is being sought to improve real time information around outages (e.g. enabling real time support and feedback on outages and a better response for customers) and to improve communications with customers around outages (e.g. creation of a call centre) results in an improvement in quality in this area over time.
- 3.4.5 With respect to the creation of a call centre, we support the Commission in considering whether retailers would be better placed to communicate with consumers, rather than Powerco's proposal to introduce a call centre itself. If Powerco's proposal to introduce a call centre was accepted by the Commission, we would expect Powerco to be held accountable for this expenditure with the introduction of appropriate customer experience quality measures to ensure that the call centre is delivering good outcomes for consumers.

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<sup>5</sup> S3.7 and S3.8 of Schedule 3 of the Electricity Authority's Model Use-of-System Agreement, Final Draft – September 2012. That document also notes that:

- the notice period of 4 days may need to be longer if a retailer elects to provide written or telephone information to the medically dependent consumers that would be impacted by the outage; and
- best practice requires that both the Distributor and the Retailer work together to keep contact information up-to-date and ensure that medically dependent consumers are identified and considered in planning service interruptions.

## **4 Delineation between the two Powerco areas**

- 4.1.1 Powerco is a unique electricity distribution business (**EDB**) in that it has networks in two separate geographical areas (the Taranaki, Wanganui, Rangitikei, Manawatu and Wairarapa regions, and the Tauranga and the surrounding rural areas and the eastern and southern Waikato, Thames and Coromandel regions).
- 4.1.2 We believe that there would be value in distinguishing the expenditure invested in these two areas so that the costs can be fairly attributed and cross-subsidisation avoided. This will not impact Powerco's ability to recover its expenditure.

## **5 Request for a variation to the IM to change the definition of distributed generation allowance**

- 5.1.1 Powerco has requested the Commission vary the definition of distributed generation allowance in clause 1.1.4 of the Electricity Distribution Services Input Methodologies Determination 2012 to confirm that it will cover ACOT payments made pursuant to contracts that were in accordance with schedule 6.4 of the Electricity Industry Participation Code 2010 (the Code) when they were entered into (pre-existing contracts).
- 5.1.2 This amendment is consistent with the rationale of the building block model, which is cost-based. Accordingly, we support Powerco's proposed clarification of the definition of distributed generation allowance, and agree with the reasons for this change outlined by Powerco in paragraph 119 of section 8.3.
- 5.1.3 We consider that the clarification is appropriate because:
  - a) Payments made under pre-existing contracts are costs directly attributable to the regulated service, and so should be included in the recoverable costs of regulated suppliers;
  - b) Continuing to classify ACOT payments as recoverable costs is consistent with the treatment of other similar costs in the IMs. The costs of ACOT payments are not able to be readily controlled or forecast by regulated suppliers as they depend on responses by third parties to the incentives set out in the transmission pricing methodology determined by the Electricity Authority;
  - c) The pre-existing contracts were entered into prudently and in good faith under the regulatory regime that prevailed at the time; and
  - d) The pre-existing contracts supported investments in distributed generation which provided, and continue to provide, a range of network support benefits to the relevant networks.