
Cross-submission

Commerce Commission: Open letter requesting feedback on recent customised price-quality path processes

14 August 2018



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1 Introduction

- 1.1 Aurora Energy welcomes the opportunity to cross-submit on the Commerce Commission's (Commission) open letter "*Requesting feedback on recent customised price-quality path processes*" (Open Letter).
- 1.2 No part of our cross-submission is confidential and we are happy for it to be publicly released.
- 1.3 If the Commission has any queries regarding our cross-submission, please do not hesitate to contact:

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2 Consideration of alternatives

- 2.1 The majority of submitters agreed that consideration of alternatives is important for major projects and we continue to support stakeholders being provided with an early indication of network investment drivers.
- 2.2 The Major Electricity Users' Group (MEUG) was upfront in its submission in stating that it "*is cautious on over-regulating EDB to dampen innovation by EDB*"¹. We agree with that statement and remain hesitant, as were other regulated suppliers who submitted on the Open Letter, to support regulation in this area. We reiterate that it may be best for the Commission to consider how asset management plans could be better used to achieve improved stakeholder engagement on this front.

3 Use of cost-benefit analysis

- 3.1 We remain of the view that mandating the use of cost-benefit analysis (CBA) is not necessary for the overall evaluation of a customised price-quality path (CPP) proposal, but acknowledge that it is a vital and important part of the process when preparing that proposal. As Powerco ventures in its submission, "*CBA techniques are best used at the individual project or programme level and tailored to the particular types of investments*"², a view that we share.
- 3.2 As we have made clear on previous occasions (including in our submission on the Open Letter), we agree with the Commission that the CPP input methodologies (IMs) evaluation criteria is a sufficient test to determine whether a CPP is consistent with the purpose of Part 4, a view which has been supported by the Electricity Networks Association (ENA). Powerco pointed out that the application of CBA "*must be carefully considered and not seen as a replacement or substitute for the assessment criteria and expenditure objective that are currently specified in the current CPP IMs*"³. We agree.
- 3.3 While the Electricity Retailers' Association of New Zealand (ERANZ), Fonterra and MEUG continue to support the introduction of CBA into the CPP process, we do not believe that they have sufficiently justified that the use of CBA is a more appropriate tool than the evaluation criteria contained in the IMs when it comes to determining whether a CPP proposal is consistent with the purpose of Part 4.

¹ MEUG. (2018). *Feedback on recent customised price-quality path processes*. 31 July 2018, paragraph 7, p3.

² Powerco. (2018). *Request for feedback on recent customised price-quality path processes*. 31 July 2018, Appendix A.

³ Powerco. (2018). *Request for feedback on recent customised price-quality path processes*. 31 July 2018, Appendix A.

4 Long term price impact

- 4.1 It is clear from submissions that regulated suppliers are supportive of the need to consult with consumers on the indicative long-term price impacts of their proposals.
- 4.2 While we are comfortable with mandating a high level requirement to consult, we do not agree with a level of prescription being introduced that extends to how an electricity distribution business (EDB) should carry out that consultation. This should be left up to the individual EDB to determine based on its individual circumstances.

5 Calculating revenue and pricing changes

- 5.1 We support the ENA in its view that there should be a focus on price impact and that *“the priority is to signal to consumers in a fair and reasoned ... manner what the impacts will be in their region from “their” CPP. Comparisons with other EDBs matter less”*⁴.
- 5.2 We agree with Wellington Electricity that the most important thing is that the pricing impact for the CPP applicant's consumer base is demonstrated. To this end, relying on MBIE's *“typical”* consumer is not appropriate given a *“typical”* consumer on one network is not necessarily the same as a *“typical”* consumer on another network.
- 5.3 MEUG suggests that a CPP applicant should run its current pricing methodology over the regulated asset base and operating expenditure levels expected under the CPP and report the expected price change for each consumer price plan. While there may be merit in an applicant deriving an estimate of pricing impact based on a cut-down version of its pricing impact, we consider that to apply the full pricing methodology would consume considerable resources which would, in our view, outweigh the benefits of doing so, given the indicative nature of any resultant price impacts.
- 5.4 We are, however, supportive of Fonterra's suggestion to communicate the price impacts and benefits delivered to those customers with individually negotiated contracts. We do not agree that this should not require a change to the IMs though.

6 Delivery and accountability of CPP commitments

- 6.1 We maintain that any framework for stakeholder-facing reports needs to be sufficiently flexible, this view being supported by the ENA, First Gas, Orion and Powerco.
- 6.2 ERANZ agrees with the Commission that there is a need for monitoring the delivery of capex and related actions. It believes that the Commission should proceed expeditiously to review the IMs so as to include, in future CPP applications, a commitment that price increases granted under a CPP will be conditional on delivery of the proposed investments in fact being undertaken. There is a need to balance surety in delivery with programme flexibility, and we do not believe that the Commission needs to change the IMs to protect consumer interests in this regard. We consider that stakeholder-facing delivery reports would provide the desired level of accountability and monitoring.

7 Link between price and quality

- 7.1 ERANZ has drawn on the Powerco CPP decision and Powerco's current development of an asset criticality framework, stating that *“If Powerco is able to develop a reliable and robust framework, it seem possible for this to set the standard for future CPP assessments.”*⁵ Our view

⁴ ENA. (2018). *Response to the Commission proposed process for 2020 DPP reset*. 31 July 2018, p2.

⁵ ERANZ. *Feedback on customised price-quality path process*. 31 July 2018. TDB Advisory, Submission to the Commerce Commission on the CPP Process Review, An independent report prepared for the Electricity Retailers Association of New Zealand, p29.

is that it is too early to be prescribing a regulatory framework for asset criticality, if indeed prescription is required at all in the longer term.

- 7.2 We reiterate that asset criticality is a somewhat nascent discipline within the distribution sector. This is demonstrated in the August 2018 update from the Electricity Engineers' Association (EEA), which has advised that its Asset Management Group has just formed a technical working group to develop guidance for establishing asset criticality frameworks. As mentioned in our submission, we suggest that the Commission engages with the EEA, and furthermore the ENA, to collaborate on the development of a sector-wide framework.

8 Consumer consultation

- 8.1 All submitters were supportive of the need to engage with consumers and to provide them with opportunities to be heard. There were many different options discussed in submissions which highlights, in our view, the fact that the Commission should not be unduly prescriptive in its regulation of this area.
- 8.2 By providing guidelines to the industry however, the Commission would clarify its expectations, while still ensuring that the process is flexible enough to allow development of, and innovation in, approaches to consumer consultation and engagement and, as Powerco suggests, "development of best practise"⁶. This would enable EDBs to explore different options, and to take learnings from other jurisdictions, to enable them to develop meaningful ways of consulting with consumers. As ERANZ rightly pointed out, "One of the areas of difficulty for CPP applicants (and consultation around electricity matters in general) is meaningfully engaging about complex, technical matters with the public."⁷
- 8.3 Flexibility is crucial to allowing EDBs to determine when and how consumer consultation is best undertaken. There are some issues where consumer consultation is not appropriate because there are no alternative solutions to the issue. Giving EDBs the freedom to identify those situations themselves and to justify their decision if they choose not to consult, will see more meaningful consultation being undertaken on issues where there are choices and where consumers can meaningfully provide input into the process. To help us facilitate just that, we have just announced a series of "Customer Voice Panels" as a means of improving consumer consultation on our network.

9 Verification

- 9.1 We maintain that we are comfortable with the verifier releasing an emerging or preliminary views report, provided only that the EDB has been given the opportunity to check facts and challenge the draft report prior to release. We do, however, agree with Powerco that this report should remain confidential and only be disclosed to the applicant and the Commission.

10 Defining and applying proportionate scrutiny

- 10.1 We remain of the view that the principle could be further clarified if the Commission was to formulate and publish explanatory guidelines. This view is shared by all parties who submitted on this topic.

⁶ Powerco. (2018). *Request for feedback on recent customised price-quality path processes*. 31 July 2018, Appendix A.

⁷ ERANZ. (2018). *Feedback on customised price-quality path process*. p2.