

30 November 2020

Dane Gunnell
Manager, Price-Quality Regulation
Commerce Commission
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WELLINGTON

By email only: feedbackauroraplan@comcom.govt.nz

Dear Dane

AURORA ENERGY'S SUBMISSION IN RESPONSE TO THE COMMISSION'S DRAFT DPP3 QUALITY STANDARD VARIATION DECISION

- 1 We welcome the opportunity to submit our views on the Commerce Commission's draft decision on Aurora Energy's RY2021 quality standard variation (**QSV**) proposal:
 - 1.1 Quality Standard Variation (QSV) to Aurora's default price-quality path – Draft decision (**the reasons paper**);
 - 1.2 [Draft] Electricity Distribution Services Default Price-Quality Path (Aurora quality Standard variation) Amendments Determination 2020 (**the draft determination**);
- 2 In our submission, we address the following key themes:
 - 2.1 Quality limits
 - 2.2 QSV framework & draft decision
 - 2.3 Quality incentive mechanism
 - 2.4 Quality incentive parameters
 - 2.5 Quality incentive calculations
 - 2.6 Draft determination
- 3 No part of our submission is confidential.

Quality limits

- 4 We acknowledge that the Commission has not accepted our proposed limits for unplanned reliability. We remain of the view that our input assumptions and modelling are robust and defensible, and that our proposal reflects Aurora's reasonably achievable reliability performance for the 2021 disclosure year.

QSV framework and draft decision

- 5 This submission on the QSV draft decision generally focusses on those areas that are specific to the QSV assessment; however, there is significant overlap with the CPP quality standard

variation (**CPPQSV**) and the QSV, given that the forecast modelling and independent review undertaken was common to both.

- 6 We are reviewing and assessing CPPQSV outcomes as part of the overall CPP draft decision. It is possible that we will challenge some aspects of the Commission's modelling and/or assumptions and will do so in our substantive submission on the CPP draft decision.
- 7 Unfortunately, there is a great deal more urgency to determine the QSV than the final determination of the CPPQSV, since the QSV applies to a single year ending on 31 March 2021. Accordingly, we need to be quite clear that the compressed timeframe for determining the QSV allows for limited analysis of the Commission's draft decision. Any gaps or omissions in this submission should not be construed as tacit acceptance of any particular aspect of the CPPQSV draft decision.

Quality incentive mechanism

- 8 We reiterate, consistent with the rationale for our CPP proposal, that our current focus (and indeed the focus of the past three years) is on safety risk management and, in general¹, we are not investigating targeted investments in reliability improvement; albeit we endeavour to take all practical operational steps to minimise the impact of planned and unplanned outages to customers.
- 9 To provide further clarity, we know that at the margin there are 'economic' reliability investments (capex and opex) that could be made on the network, but these are not affordable for our communities at this time, and they will distract our limited internal and external resources from safety-related work.
- 10 We are wary of a quality incentive mechanism that is not aligned to the circumstances of the business. If a business is in a position where it must prioritise other investment over reliability investments, then a quality incentive mechanism simply becomes an ex-post revenue adjustment mechanism rather than genuinely trying to influence improved performance.
- 11 Therefore, consistent with our submission on the CPP 'Issues Paper' we remain of the view that the quality incentive has little value in incentivising reliability-oriented expenditure².

Quality incentive parameters

- 12 The Commission reasons that splitting the quality incentive parameters to pre- and post-decision is appropriate because Aurora would have faced different incentives during each period, especially after the draft decision. In reality, the incentive is not much different given the safety-related nature of the investments Aurora is making. Aurora would not have been any more-or-less minded to manage reliability during each separate period. With a focus on safety investments, and a general expectation of non-compliance with quality limits, the focus on reliability becomes limited to operational efficiency – ensuring that the work is conducted safely and efficiently, and in a manner that least impacts SAIDI and SAIFI.
- 13 While we understand the general thrust of the Commission's rationale for pro-rating the quality incentive parameters, the fact remains that:
 - 13.1 Except for planned SAIDI, the existing DPP3 caps (being the compliance limits) are not reasonably capable of being complied with by Aurora; and

¹ Exceptions include security of supply enhancements where there is an elevated level of prolonged outage risk; e.g., Clyde/Earnscliffe reinforcement.

² Aurora Energy Limited. (2020). *Aurora Energy's submission in response to the Commission's CPP issues paper*. p15.

13.2 the DPP3 revenue neutral points (targets), reflecting average historical performance over a relatively long period, do not reflect Aurora's reasonably achievable 'expected' performance.

Quality incentive calculations

- 14 The Draft Determination requires three incentive calculations to be performed, which is administratively burdensome (1 x planned and 2 x unplanned). If we are unable to persuade the Commission that the varied incentive parameters should apply to the whole of the assessment period, or that the quality incentive should be removed altogether, then we suggest that it would be administratively simpler to specify a single calculation for the unplanned incentive based on a weighted average target value and weighted average cap value.
- 15 Performing a single quality incentive calculation based on weighted average parameters would not compromise the Commission's intent for the unplanned incentive in any material way.

Draft determination

- 16 We commissioned a legal review of the draft determination, which included checking for consistency with the Commission's draft QSV decision reasons paper in addition to considering how the QSV determination amends the 2020-2025 DPP determination.
- 17 That review did not identify any errors or inconsistencies, and the definitions, formulas etc. appear to have been updated consistently with the reasons paper.

Yours sincerely



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