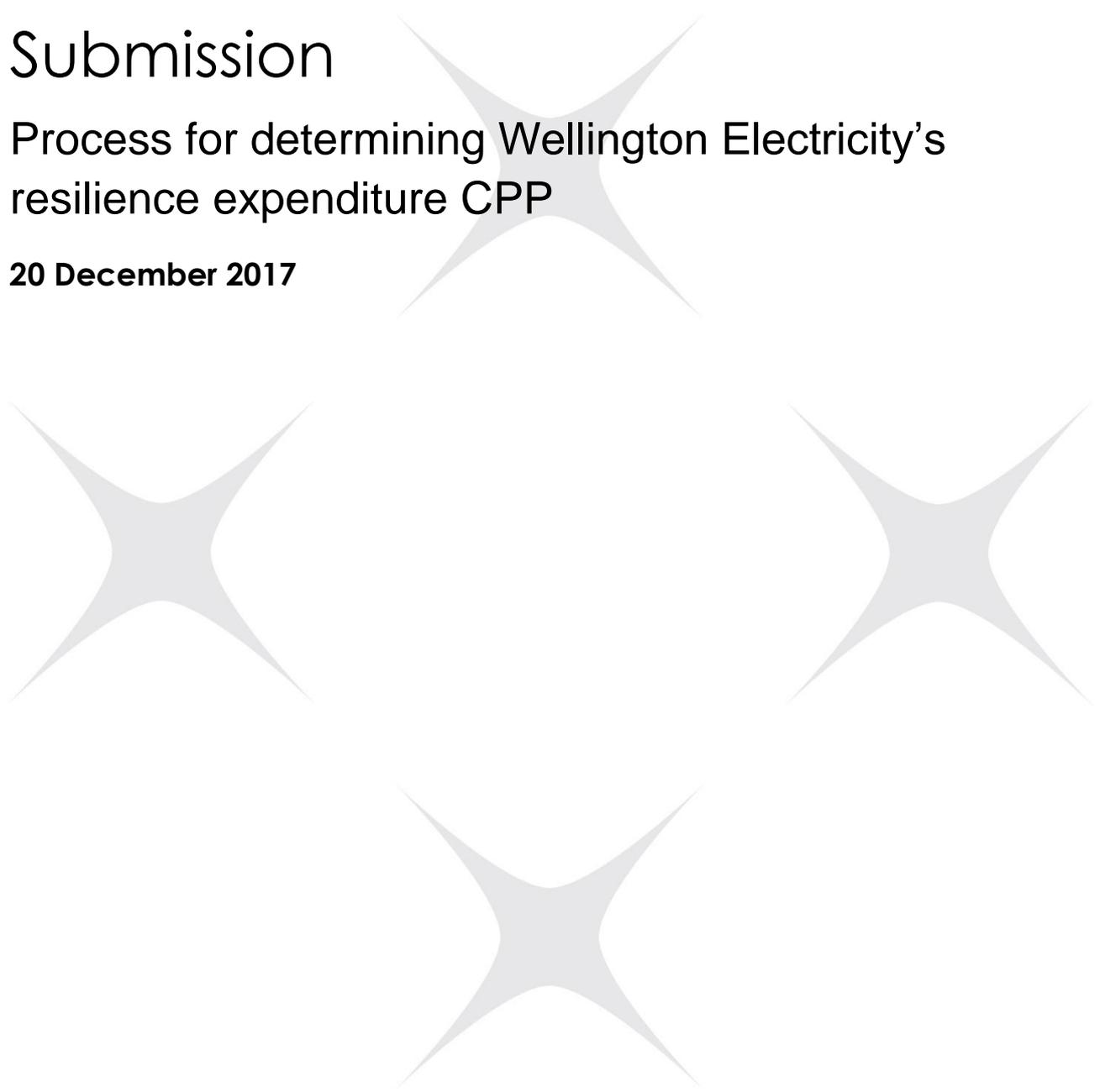


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# Submission

Process for determining Wellington Electricity's  
resilience expenditure CPP

**20 December 2017**



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# 1 Introduction

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Aurora Energy welcomes this opportunity to comment on the Commerce Commission's discussion paper "*Have your say on Wellington Electricity's proposal to change its prices - Process for determining Wellington Electricity's customised price-quality path*", dated 6 December 2017.

No part of our submission is confidential and we are happy for it to be publicly released.

If the Commission has any queries regarding our submission, please do not hesitate to contact:

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## 2 Qualified support

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Aurora Energy supports the Commission's approach to evaluating the expenditure planned by Wellington Electricity (WE) to improve its network resilience and ability to respond to a significant earthquake in the Wellington region (resilience CPP proposal). We agree that:

- the Commission should be open to considering short-form or 'streamlined' CPP applications that do not meet the requirements of a full CPP application and process; and
- focussing scrutiny only on the additional resilience expenditure (effectively a 'single issue' CPP) is a proportionate approach under the circumstances.

We consider the Commission's approach is consistent with the 'proportionate scrutiny principle' and ensuring "*the benefits of ... scrutiny to consumers outweigh the associated costs*"<sup>1</sup>.

However, where we disagree with the Commission, and MGUG, is on the precedent value of the WE CPP. We agree with FirstGas on this matter. We consider that the WE CPP highlights that 'single issue' CPPs are appropriate where the proposed expenditure can be viewed separately from the rest of the business.

We recommend that the Commission revisit this matter when it has completed the WE CPP determination, in light of the experience with the 'streamlined' approach. We consider that the Commission should reflect on whether the 'streamlined' approach enabled robust and proportionate scrutiny of WE's CPP, and whether it could enable robust and proportionate scrutiny to a wider range of 'single issue' CPP proposals.

The WE CPP and its drivers should not simply be confined to history as a 'Wellington solution to a Wellington problem'.

## 3 Precedent Value

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The Commission initially justified the proposed approach to a WE resilience CPP proposal on the basis that it reflects 'exceptional circumstances'. We agree that genuine 'exceptional circumstances' provides a sound basis for approving a deviation from the CPP IM.

The Commission also initially noted the WE resilience CPP proposal is likely to have limited precedent value; "*We consider that the very specific circumstances make this approach appropriate and we are unlikely to adopt this approach in the future, unless similar exceptional circumstances were to arise*"<sup>2</sup>.

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<sup>1</sup> Commerce Commission. (2017). Transpower capex input methodology review: Draft decisions. 15 November 2017, paragraph 46, p21.

<sup>2</sup> Commerce Commission. (2017). Our proposed approach to assessing Wellington Electricity's proposal for additional expenditure to improve its resilience and response to a major earthquake. 14 November 2017, paragraph 23, p7.

The Commission went on to state:

*"In determining the CPP, focussing our scrutiny only on the additional resilience expenditure. This would limit the size of our task while ensuring the additional resilience expenditure is prudent and efficient. We consider that this would be a proportionate approach in these exceptional circumstances, as the sole driver for the CPP would be this resilience expenditure."*<sup>3</sup>

*"We do not think that modifying the IMs in this way will detract, in a way that is more than minor, from our ability to evaluate and determine the CPP or for interested persons to provide input. This is because, in these exceptional circumstances, our evaluation and determination of the CPP will focus primarily on the additional resilience expenditure."*<sup>4</sup>

We are not convinced that approach being proportionate and/or not detracting, in a way that is more than minor, from the Commission's ability to evaluate and determine the CPP or for interested persons to provide input, hinges on the 'exceptional circumstances'. Rather we think it hinges on the CPP application being narrow in scope - a 'single issue' CPP, separable from WE's other expenditure.

We agree with FirstGas that:

*"In our view, the key element behind the Commission's proposed approach is the separability of expenditure. If WELL can demonstrate to both the Commission and customers that the additional resilience expenditure is separable to that already approved in its DPP allowances, the Commission's proposed approach will ensure that the additional expenditure can be robustly scrutinised within the timeframe required, while still providing customers adequate opportunity to scrutinise and comment.*

*"We consider that WELL's high-level summary to the Commission provides the context for the additional resilience investment, enabling the Commission to confirm the separability of the expenditure before proceeding with the streamlined CPP."*<sup>5</sup>

Ultimately, we could not find anything in the MGUG submission, or the Commission's response to FirstGas, that provided a sound basis for rejecting FirstGas' or our stance on 'single issue' CPPs. None of the comments addressed or challenged FirstGas' separability point:

<b>Commerce Commission response to FirstGas</b>	<b>Aurora's comments</b>
<i>"We consider that WELL's urgent and exceptional circumstances justify a streamlined CPP in this case (ie, the heightened earthquake risk following the Kaikoura earthquake and the government issuing a government policy statement). ..."</i> <sup>6</sup>	We agree. However, this response does not impact on whether 'single issue' CPP proposals should be accepted in other, non-exceptional, circumstances.
<i>"... However, as outlined in paragraph 23 of the Discussion Paper, we are unlikely to adopt this approach in the future, unless similar exceptional circumstances were to arise. ..."</i> <sup>6</sup>	This response does not explain why 'single issue' CPPs in other, non-exceptional, circumstances should not be accepted.

<sup>3</sup> Commerce Commission. (2017). Our proposed approach to assessing Wellington Electricity's proposal for additional expenditure to improve its resilience and response to a major earthquake. 14 November 2017, p6.

<sup>4</sup> Commerce Commission. (2017). Our proposed approach to assessing Wellington Electricity's proposal for additional expenditure to improve its resilience and response to a major earthquake. 14 November 2017, paragraph 43, p11.

<sup>5</sup> First Gas Limited. (2017). Proposed approach for Wellington electricity resilience. 28 November 2017, p1.

<sup>6</sup> Commerce Commission. (2017). Have your say on Wellington Electricity's proposal to change its prices: Process for determining Wellington Electricity's customised price-quality path. 6 December 2017, p7.

<p><i>"We consider that the very specific circumstances make this approach appropriate and we are unlikely to adopt this approach in the future, unless similar exceptional circumstances were to arise."</i><sup>7</sup></p>	<p>See comment above.</p>
<p><i>"More generally we consider proportionate scrutiny will be relevant in determining where we focus our attention when assessing a CPP, and the depth of information we require. ..."</i><sup>8</sup></p>	<p>This response does not explain why proportionate scrutiny will be possible with the WE CPP, but would not be possible for other 'single issue' CPPs in other, non-exceptional, circumstances.</p>
<p><b>MGUG:</b> <i>"... we are concerned to ensure, that in developing a 'streamlined' CPP the Commission's particular approach does not undermine the overall regime for setting a CPP or key elements which are important to it. ... potentially undermining the framework e.g. the level of scrutiny to be applied to expenditure. The Commission needs to take care to ensure that bespoke solutions are not seen as opportunities to alter the framework."</i><sup>9</sup></p>	<p>What we think MGUG's comments boil down to is making sure there is robust and proportionate scrutiny of all CPP proposals. We consider that the experience with the WE CPP will demonstrate that the Commission, and other stakeholders, can have confidence that 'single issue' CPPs would have a suitable, targeted, level of scrutiny that would not harm or undermine the DPP/ CPP regime. In fact, quite the opposite is likely if the approach demonstrates an ability to reduce the cost of the CPP regime, and remove barriers or impediments to regulated suppliers applying for CPPs.</p>

## 4 Concluding Remarks

Aurora Energy welcomes the pragmatic and flexible approach the Commission is taking for the WE resilience CPP proposal.

If, as we fully expect, the 'streamlined' CPP process proves to be successful and effective, allowing a proportionate level of scrutiny to determine whether the proposed expenditure is prudent and efficient, we recommend that the Commission reflect on whether it would be beneficial to amend the IMs to enable 'streamlined' or 'single issue' CPPs in a wider set of circumstances than the 'exceptional circumstances' relevant to WE's proposal.

If the WE resilience CPP process proves to be successful and effective, and we see no reason why it should not be, it will raise substantive questions about the Commission's reasoning for prohibiting 'single issue' CPPs:

*"We continue to hold the view that CPPs should always be full scope. By 'full scope', we mean that the scope of the application will encompass all inputs needed to set the price-quality path. This means that all inputs are potentially subject to scrutiny. Accordingly, we do not consider single-issue CPPs to be appropriate, and, as such we have removed the provisions in the IMs that allow EDBs to apply for a quality-only CPP (although we have replaced that option with a new DPP reopener)".*<sup>10</sup>

<sup>7</sup> Commerce Commission. (2017). Our proposed approach to assessing Wellington Electricity's proposal for additional expenditure to improve its resilience and response to a major earthquake. 14 November 2017, paragraph 23, p7.

<sup>8</sup> Commerce Commission. (2017). Have your say on Wellington Electricity's proposal to change its prices: Process for determining Wellington Electricity's customised price-quality path. 6 December 2017, p7

<sup>9</sup> MGUG. (2017). RE: Submission on the Commission's proposed approach to assessing Wellington Electricity's proposal for additional expenditure to improve its resilience and response to a major earthquake. 14 November 2017, paragraphs 3-4, p1.

<sup>10</sup> Commerce Commission. (2017). Input methodologies review decisions: Topic paper 2: CPP requirements. 16 June 2016, paragraph 76, p27.

At its conclusion, the experience with the WE resilience CPP could reasonably be viewed as new evidence relevant to the IMs review.

We reiterate our support for 'single issue' CPPs, which would enable lower cost proposals and avoid having to open the entire books<sup>11</sup>. We think 'single issue' CPPs may be appropriate, for example, in circumstances where:

- the proposal can be readily ring-fenced from a regulated supplier's other activities/expenditure; and/or
- the nature of the proposal (e.g., if it is a modest uplift to the price-path in the DPP) doesn't warrant or justify the compliance costs or scrutiny of a full CPP'

This is entirely consistent with the Commission's statement (which does not refer to 'exceptional circumstances') that:

*"The additional resilience expenditure is unlikely to have strong interdependencies with other expenditure categories or WELL's quality standards, which means we would be able to scrutinise the resilience expenditure in isolation (apart from checks to ensure that the expenditure has not already been provided for). We consider that this approach is proportionate in these unique circumstances."*<sup>12</sup>

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<sup>11</sup> Aurora Energy Limited. (2016). Input Methodologies Review: Draft Decision and Determination Papers. 4 August 2016, section 12, p13.

<sup>12</sup> Commerce Commission (2017). Our proposed approach to assessing Wellington Electricity's proposal for additional expenditure to improve its resilience and response to a major earthquake. 14 November 2017, paragraph 22.4, p6.