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

Powerco feedback on the process for resetting default price-quality paths for electricity distribution businesses.

Powerco welcomes the opportunity to comment on the process the Commerce Commission (the Commission) undertook to reset the default price-quality paths (DPP) for electricity distribution businesses.

General comments

Powerco acknowledges the extensive process undertaken by the Commission to reset the DPP Determination (the Determination) in November 2019. Although Powerco was in the early days of its Customised Price-Path (CPP) journey, we took an active interest in the DPP reset process because it may affect our business when the CPP ends in 2023.

Our high-level comments on the Commission's process are:

- The process was generally proportionate, robust, and adaptive. It worked well.
- We are disappointed there was no opportunity to engage on the customer interruption minutes threshold. Major decisions like this deserve a thorough review by the Commission and regulated businesses
- Some important issues remain unresolved and have scope for substantial development eg expenditure forecasts
- Keep knowledge-sharing as a priority

Attachment 1 provides Powerco's detailed feedback. If you have any questions on this submission, please contact Nathan Hill (Nathan.Hill@powerco.co.nz).

Yours sincerely

A handwritten signature in black ink, appearing to be "AK", written over a light blue horizontal line.

Andrew Kerr
Head of Policy, Regulation, and Markets

Attachment 1: Powerco's detailed feedback

Ensure the time frame for seeking feedback is sooner rather than later

We expect, in the absence of COVID 19, the Commission would have sought feedback on the DPP reset process earlier. A consequence of seeking feedback in June for a process that ended the previous November is that it can be challenging to recall some details.

In future, we would like to see the Commission build feedback into the overall process of making a determination. This could include:

- A gap no greater than two months between the final decision and the request for feedback should ensure the consultation process is still at the forefront of interested parties' minds.
- Seeking feedback on the DPP4 process as it proceeds (similar to how Transpower is required to seek feedback following unplanned outages).
- Reviewing submissions made over the period (on DPP and other issues) for any comments made about process.

This material could be considered and summarised by the Commission in the process paper for the subsequent DPP.

Introducing untested standards risks unsatisfactory outcomes for consumers

Certainty around regulatory processes, timelines and the decision-making framework applied by the Commission is important to regulated businesses and stakeholders. The Commission got this part of the DPP reset process right, but for one issue.

An exception was the introduction of a customer interruption minutes threshold as part of the extreme event quality standard final decision. We are disappointed interested parties were not given an opportunity to comment on this threshold. We are also concerned that the Commission may have significantly underestimated the number of extreme events in distributor historical data.¹

Introducing untested standards increases the risk of undesirable and inappropriate outcomes when applied in practice eg upgrading networks to a level of resilience to avoid breaching an under-analysed standard. The trade-off is that the Commission must be prepared to be flexible to amend the way the standards are calculated (or compliance breaches handled).

In our view, major changes like this should be signalled well ahead of time and sufficient time should be allowed to enable a thorough review of their implications by both the Commission and regulated businesses. Customers can then be assured appropriate standards are being set and met at least cost.

The process should accommodate uncertainty

The current regulatory framework works well in a steady state but isn't great at handling change. And we're in a period of change in policy and customer expectations which is both observable and

¹ Paragraph L 72 of the Commission's final decision reasons paper notes that only two contraventions of the extreme event standard would have occurred in the past ten years. In contrast, analysis undertaken by PwC suggests that Powerco would have had nine extreme events in the past ten years.

nigh impossible to translate to a demonstrably reasonable forecast of the cost impact. The DPP process needs a way to translate this uncertainty to the setting of allowances for distributors. Ignoring it is implicitly waiting for detrimental customer outcomes before acknowledging the need for a solution. In that context, some important topics remain outstanding, with scope for substantial further work:

- **Reviewing how expenditure allowances are set.** The current approach to setting DPP expenditure allowances, based largely off historical expenditure, may not allow for the level of investment needed to support consumers evolving energy needs. For instance, we expect distributors will need to make significant investments to support the uptake of small-scale distributed generation eg low-voltage network visibility and associated R&D. Using the existing CPP process to address this type of scenario is potentially equivalent to using a sledgehammer to crack a nut.
- **Moving large distributors on to an individual price-quality path regime.** This would provide a higher degree of transparency for companies that serve most consumers and allow the DPP regime to be tailored for small distributors.
- **Data for new quality standards and incentives.** It is important that the Commission undertakes a review of the Information Disclosure requirements so that distributors can begin reporting data that may be required for the future setting of additional quality standards and incentives.
- **CPI forecasting.** Significant CPI forecasting error in recent DPP resets suggests that a review of the current CPI forecasting approach is warranted.

Engaging with interested parties early on substantial issues like those listed above, will lessen the consultation effort and help ensure these issues receive the consideration and justification they deserve.

Build on the knowledge sharing workshop

Powerco welcomed the knowledge sharing workshop the Commission held early in the DPP reset consultation process. It recognised there are people and interested parties new to the industry and its regulatory framework. We found this workshop useful and would support a similar workshop in future consultations.

The purpose of the knowledge sharing workshop was to:

- Encourage wider participation and more viewpoints into the process; and
- Speed up the learning process for those new to the industry and Part 4 regulation

We fully support these objectives and believe they should continue to be a priority for the Commission because:

- The regulatory explanations largely exist in consultation documents and reasons papers, which make them difficult to find. This without doubt limits the spread of regulatory knowledge. For example, what can you give to someone to explain IRIS?
- The regulatory framework is sufficiently mature now that it's inefficient for people to trawl through over 10 years of consultation material and decision papers

- Greater participation and viewpoints on the regulatory process will be needed as decarbonisation, digitisation and decentralisation increase the role of consumers in New Zealand's energy system

Changes that can speed up the learning process and encourage wider participation include:

- Creating an educational document that builds on the content of the knowledge sharing presentation. This document should provide an overview of the regulatory framework and include explanations of, and the reasons for, the key features of the up-to-date regulatory rules and instruments; and
- Developing an online education tool, like the Electricity Authority's Electricity Education Portal, that makes information easy to find and improves awareness and understanding of the regulations

We support process flexibility

We were impressed the Commission's process had the flexibility to adapt to new issues that emerged during the consultation period. A good example is the Commission's consultation on the recording and treatment of successive interruptions for SAIFI.

The flexibility to add relevant publications and consultations is something Powerco supports and recommends the Commission allows for in future reset processes.

Consultation timeframes

While the amount of time given to respond to consultation papers was generally sufficient. Ideally, interested parties would have been given more time for cross-submissions on the companion paper to the updated models and cross-submissions on the SAIFI consultation paper. Both of these cross submissions had a one-week response time, which made it challenging to resource appropriately. We believe that longer response time would have increased the number and quality of submissions.

The operating leases consultation was imperfect

The operating leases consultation was poorly timed. Ideally, the Commission should have completed this consultation before distributors had the option to early adopt the new accounting standard.

Running the operating leases and DPP reset consultations at the same time created workload and resourcing issues for all parties.

The consultation material and 53ZD request included some ambiguities that created uncertainty and complicated the consultation process. Because the Commission's modelling and decision paper omitted distributors currently on a CPP we are unsure how the operating leases IM will apply to Powerco when our CPP ends.

Distributors on a Customised Price-Quality Path

We think it would have been useful to include Powerco, and other distributors currently subject to a CPP, in the Commission's expenditure forecasting and building block allowable revenue models. This would have made it easier for these distributors to engage on the price path components of the consultation.