

28 November 2017

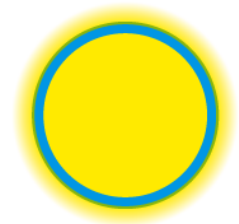
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**POWERCO**



Dear Matthew

### **Proposed approach to assessing Wellington Electricity's CPP application**

Powerco appreciates the opportunity to comment on the Commission's proposed approach to evaluating and determining Wellington Electricity's (WE's) Customised Price-quality Path (CPP) application. We support the Commission's proposed approach to consider a stream-lined CPP process for WE and any party facing a similar situation. We do not have a strong preference between DPP reopeners and single issue CPPs – what matters is that the effect is to reduce complexity and suitably tailor the relevant price-quality path<sup>1</sup>.

The context for our comments is the unique set of circumstances as described in the Commission's discussion paper and the Government Policy Statement (GPS)<sup>2</sup>:

- GNS Science has assessed a higher risk of a major event in the Wellington region (an earthquake) following the Hurunui and Kaikoura earthquakes in November 2016.
- The GPS stated that lifeline utilities can recover reasonable costs from actions arising from new hazard information. It also states that Wellington's disaster resilience be given due consideration by lifeline utilities and the Commission when performing functions under Part 4 of the Commerce Act. Prudent, efficient, and timely resilience expenditure is allowed to be recovered.

In combination, these unique factors support the streamlined approach proposed by the Commission to allow WE to address the resilience requirements. This confluence of circumstances is acknowledged by the Commission's expectation that the approach proposed for WE's expenditure is "unlikely to be adopted in the future"<sup>3</sup>. Neither the Commission nor a lifeline utility can predict the potential for "new hazard information" becoming available nor the extent of its national significance as identified by the Government. We support the Commission's pragmatic approach to addressing these circumstances within the regulatory regime.

<sup>1</sup> We have commented on this previously eg Powerco submission on IM review Draft Decision, 4 August 2016, para 147.

<sup>2</sup> Government Policy Statement—Resilience of Electricity Services in the Wellington Region. New Zealand Gazette, No. 97 — 21 September 2017.

<sup>3</sup> Para 23 in the Commission's Discussion Paper.

We support the increased visibility and awareness of the need to focus and address network resilience needs. Resilience was a key area of discussion with consumers during consultation on our CPP proposal. An example of feedback was from Councils who recognised the need to maintain network resilience to storms and other hazards. Remaining on the current Default Price-quality Path (DPP) would have meant a lower short-term cost at the expense of deteriorating resilience and security for Powerco. Correcting this in the future would require substantially higher levels of investment (and prices) beyond the five year regulatory period. The Commission's draft decision on Powerco's CPP aligns with customer expectations about resilience and is consistent with the proposed approach to a CPP application by WE in this instance.

The proposed streamlined-CPP solution is context-specific and should not inform general conclusions about the proportionality of cost and scrutiny between the DPP and CPP decision making framework. We have commented on this in our submissions<sup>4</sup>. In particular, we have raised concerns about the need to stratify the approaches to expenditure forecasting under a DPP and CPP.

A robust business case is necessary for all parties, regardless of the drivers described earlier. For example, we expect the Commission's determination will include considerations of the CPP expenditure objective e.g.<sup>5</sup>

- the proposed investments align with the service outcomes;
- the projects can be delivered at the right time, within the bounds of the planning uncertainties;
- the processes for delivering the expenditure are efficient; and
- the supplier has adequate strategies for accessing the necessary resource to undertake an increased level of expenditure.

A monitoring plan reporting on delivery and cost against the proposal has merit. Its purpose might be to confirm how the expenditure and solutions have tracked against the plan over the proposed 3 year duration. With a small degree of transparency, WE faces a strong incentive to deliver the proposed solution. This simple reporting mechanism can be supplemented with more detailed and bespoke analysis if required. This avoids attempting to engineer a framework where the potential issues aren't and can't be known in advance. We support a similar approach for to Powerco's CPP delivery report for the same reasons.

Given the driver of the expenditure is an extreme earthquake event, the quality of the solution will only be revealed should that event occur. The potential impact of that event will probably outweigh WE's proposed \$31m expenditure. The Commission should be mindful of this impact in its assessment of the proposal.

If you wish to discuss our submission, please contact Andrew Kerr ([andrew.kerr@powerco.co.nz](mailto:andrew.kerr@powerco.co.nz)).

Yours sincerely



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<sup>4</sup> Submission on "Policy for setting price paths and quality stands: Default price-quality paths for gas pipelines services from 1 October 2017", 28 September, 2016. See for example paragraphs 38-55.

<sup>5</sup> Input methodologies review decisions – Topic paper 2 – CPP requirements – 20 December 2016, para 163.