

Grey Power Federation Zone 4



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Powerco CPP draft decision – cross submission

1. This is a cross-submission by Zone 4 of the Grey Power Federation (Zone 4) on the submissions of other parties to the Commerce Commission draft decision on Powerco's proposed CPP.

2. Consistent consumer opposition to price increases

Eight of the 11-submissions were from consumers and the ninth from a retailer, Contact Energy, acting as an agent for consumers

A common theme of these submissions is the concern over increased costs to consumers. This concern has several elements:

2.1 The proposal to fund deferred capex renewals through direct levy on consumers. This was a key point of our submission. In addition we support the views expressed by others.

2.1.1 Davies asserts that: "Powerco have failed to keep their network up to date and fit for purpose at all times they should not now be imposing increased costs onto the consumers to catch up while more than likely still paying dividends to their shareholders." and "It is now the Commerce Commissions responsibility to see that Powerco get their network up to scratch, but at the same time to not penalise their consumers of today for their past lack of future proofing of their network."

2.1.2 Kamada Developments states that "There now seems little doubt many of the network assets are in a run-down state and need urgent attention. What has not been addressed by the Commission is why this is the case and how this has reflected financially for PowerCo. Have PowerCo shareholders been advantaged financially through insufficient maintenance in past years? Did PowerCo purchase run-down assets at a reduced price and now need catch-up maintenance?

...

why consumers should shoulder these increased costs? Corrective work is obviously required and this cost should be borne by the shareholders not by consumers.

2.1.3 Terry Wilson submitted that "... the company, while producing healthy profits and large dividends for many years, has suddenly discovered that it has, over those many years, been neglecting to adequately fund the renewals of its equipment. As with Aurora Energy, Powerco has had the choice of pleasing its shareholders or sustainably funding equipment renewals.

These decisions to divert cash from renewals to dividends may have been made on assumption that you would grant their application for a CPP. If you grant this application other companies will become aware of your feckless decision-making and assume that they can behave in same way as Powerco and Aurora by neglecting their renewals as a way of bypassing the DPP. Any company that pays a dividend should not complain that they can't afford to pay for their renewals capex and they certainly should not expect the Commerce Commission to ensure that they can continue to pay a healthy dividend."

2.2 Quality of delivery services.

We support the submissions below that point out the disparity between consumers' expectations and the recoded reliability of service delivery, and the proposed increase in quality standards.

2.2.1 MEUG submitted that the Commission should "scale back targeted quality standards to the status quo and consequently approved expenditure can be scaled back.

2.2.2 Mr Duignan submitted "The Commission's process for evaluating CPP proposals requires a decision on "*appropriate service standards*" and in the case of a proposal for higher expenditure to maintain or increase reliability that decision needs to be based on a comparison of cost versus benefits. ... surveys indicate that customers do not want to pay for increased reliability,

2.3 Demand assumptions and network evolution

We noted the rapid change in network capabilities and economics and queried the rationale behind providing 'more of the same' as an optimum approach to meet the best interests of consumers.

We therefore support the following points made.

2.3.1 Ms Melhuish stated that: "I consider it essential for non-network solutions to be developed especially to improve reliability. Note that Vector is evolving its network as part of its normal business planned expenditure, as it should be."

2.3.2 Contact Energy considered that: "The task we believe lies in front of networks is looking to transition to intelligent, dynamic networks that can act as a platform for services. ... Costs to consumers can be minimised when distributed generation assets are optimally used."

Contact point for queries

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