

# Invitation to have your say on Powerco's CPP proposal

## MEUG monthly meeting

23 August 2017

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## Issues paper published last Friday

Issues paper published 18 August seeking views on Powerco's proposal ahead of our November draft decision.

The paper covers:

- an overview of our role, process, and approach in evaluating Powerco's proposal (including how you can have your say on it);
- a brief outline of Powerco's proposal; and
- issues and questions for consumers and stakeholders to consider.

**Submissions due 22 September ([PowercoCPP@comcom.govt.nz](mailto:PowercoCPP@comcom.govt.nz))**

## Powerco's customised price path

### Who is Powerco?

Powerco has over **320,000** connected homes and businesses across 19 territorial local authorities, serviced by 28,000 km of poles and lines, giving Powerco the biggest footprint of any electricity distribution network in the country.

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Powerco plans to spend **\$1.32 billion** over the five year period from **2018-2023** in replacing and upgrading parts of its electricity network.

This is almost **55% more** than Powerco spent in the last five years.

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Powerco estimates it will require a **5.7% increase in revenue** to cover this increased expenditure and it estimates this will **increase** an average domestic consumer's yearly cost by **\$41 annually**

### We want your views

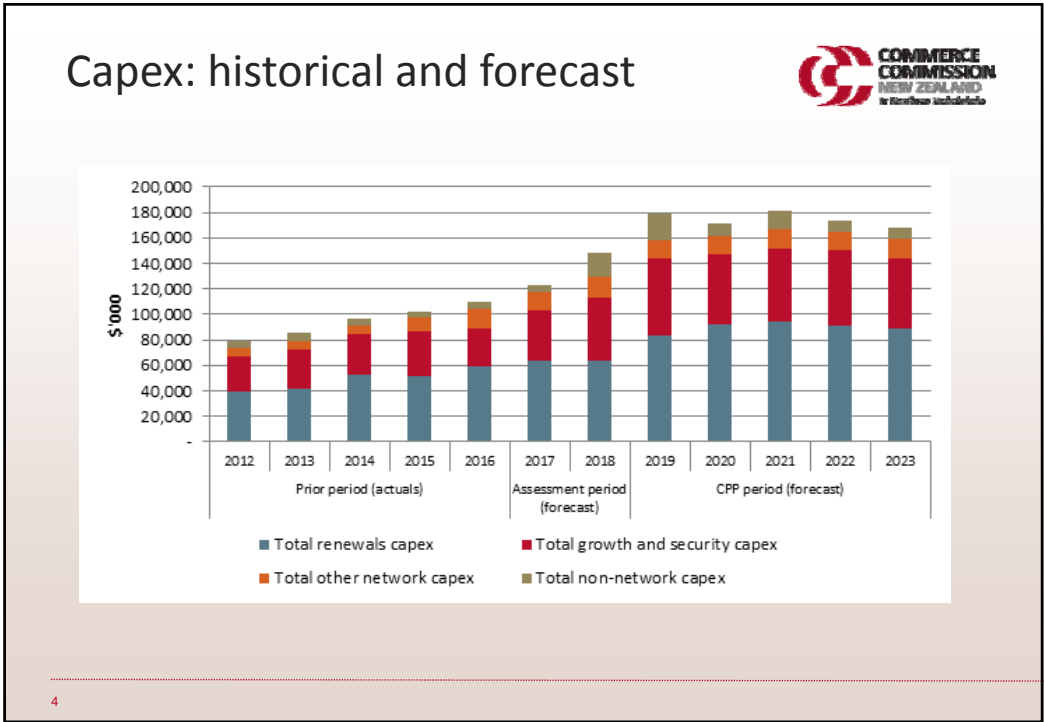
The Commerce Commission must evaluate Powerco's proposal and set new price limits and quality standards

The Commission's evaluation process will provide opportunities for consumers to provide their views on Powerco's proposal.

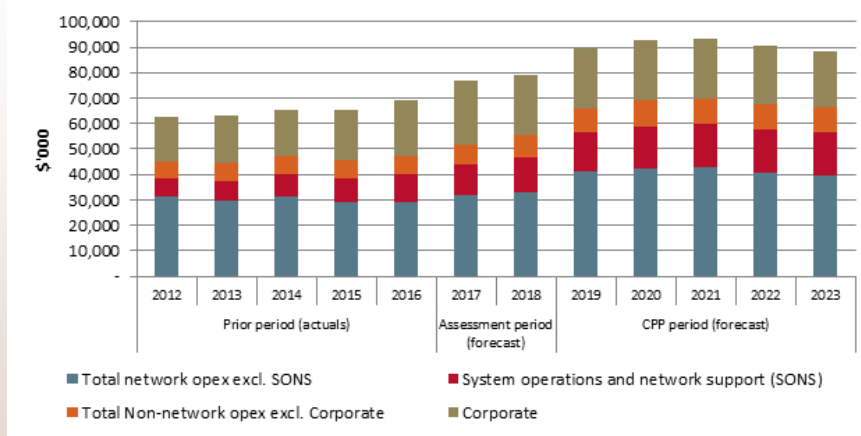
The Commission expects to:

- Issue a consultation paper in August and seek feedback from consumers;
- Issue a draft decision on Powerco's proposal in November and seek further feedback from consumers; and
- Issue a final decision by 29 March 2018.

But you can have your say at any time at [www.comcom.govt.nz/PowercoCPP](http://www.comcom.govt.nz/PowercoCPP) or by email [PowercoCPP@comcom.govt.nz](mailto:PowercoCPP@comcom.govt.nz)



## Opex: historical and forecast



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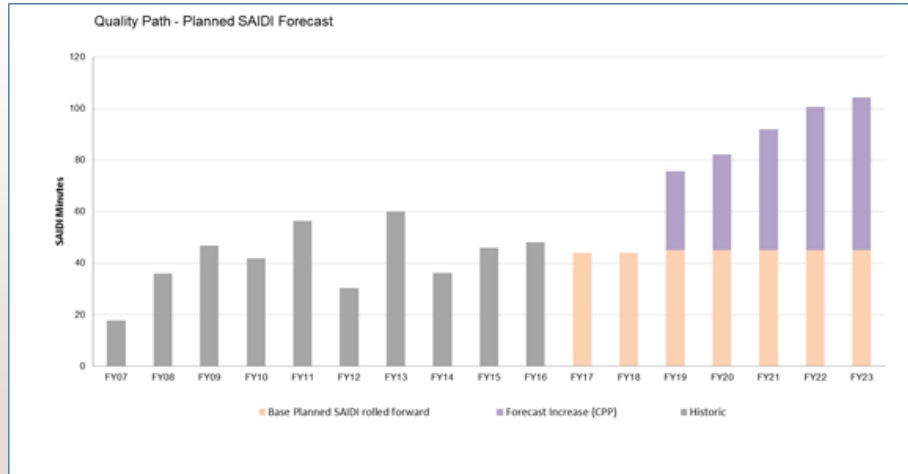
## Expenditure breakdown



\$m (2016 real)	2014-2018	2019-2023	Change (abs.)	Change (%)
Renewals Capex	290.3	450.4	160.1	55.2%
Growth and Security Capex	186.1	285.9	99.8	53.7%
Other network Capex	63.7	73.3	9.5	14.9%
Non-network Capex	40.8	63.4	22.6	55.2%
<b>Total Capex</b>	<b>581.0</b>	<b>873.0</b>	<b>292.0</b>	<b>50.3%</b>
Network Opex excl. SONS	154.3	206.7	52.5	34.0%
SONS Opex	55.1	82.5	27.4	49.8%
Non-Network Opex excl. Corporate	37.6	49.0	11.4	30.5%
Corporate Opex	109.0	116.3	7.4	6.8%
<b>Total Opex</b>	<b>355.9</b>	<b>454.6</b>	<b>98.7</b>	<b>27.7%</b>
<b>Total Expenditure</b>	<b>937</b>	<b>1,328</b>	<b>390.7</b>	<b>41.7%</b>

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## Planned SAIDI forecast



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## We propose to rely on the Verifier's findings



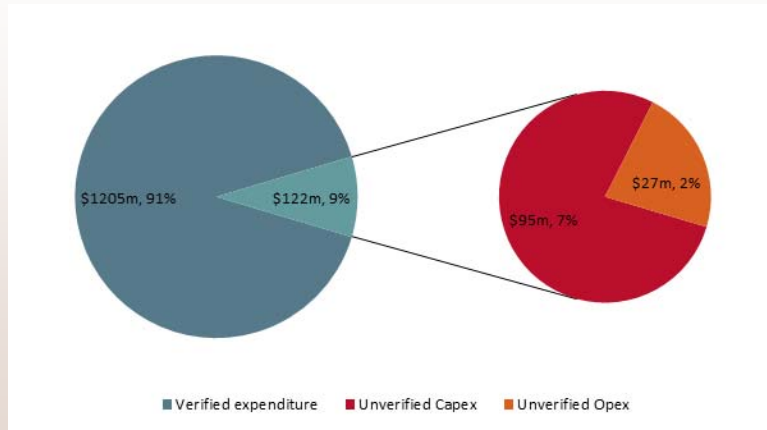
At a high level:

- we propose to rely on the verifier's findings and do not intend to duplicate the analysis already undertaken by the verifier;
- we propose to largely rely on the verifier's view that 89% of Powerco's capital expenditure (capex) and 94% of its operating expenditure (opex) meet the expenditure objective – subject to the comment below; and
- we intend to target our review primarily on areas of Powerco's proposal that the verifier suggested we scrutinise further.

We have identified a small number of issues that were not identified by the verifier, either because they were outside the scope of the verification process or because we seek further assurance than was provided in the verification report.

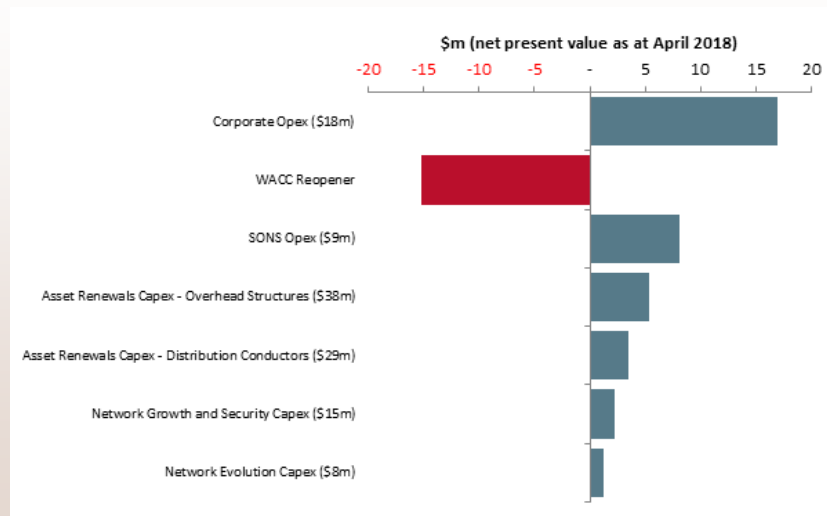
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## Extent of verification of expenditure



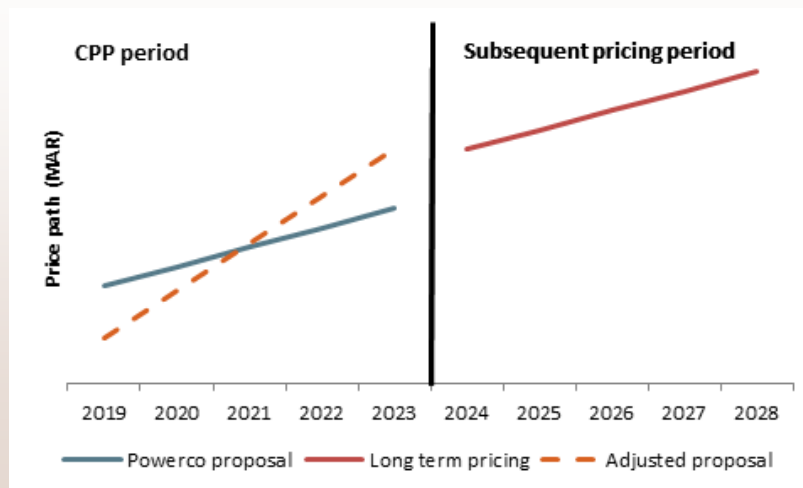
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## Sensitivity of unverified expenditure on MAR



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## Long term pricing impact



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## Issues for consideration



- Quality – issues relating to Powerco’s proposed quality measures and standards
- Long term pricing impact of Powerco’s CPP proposal
- Potential price volatility from WACC change during the CPP period
- Asset health and criticality and its impact on capex forecasts
- Network evolution capex
- Opex forecasts
- Deliverability risk of Powerco’s CPP proposal

We welcome your views on these issues and any other areas of Powerco’s proposal you think we should particularly consider

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