

24 January 2020

Dr Richard Fletcher  
Chief Executive  
Aurora  
By email to [yoursay@auroraenergy.co.nz](mailto:yoursay@auroraenergy.co.nz)

Dear Richard

### CPP consultation

1. This is a submission by the Major Electricity Users' Group (MEUG) on the Aurora Energy consultation document "Your network, your say" published 19<sup>th</sup> November 2019 on the proposed customised price-quality path (CPP) application 2022-2024.<sup>1</sup>
2. MEUG members have been consulted in the preparation of this submission. This submission is not confidential. Some members may make separate submissions.
3. MEUG makes this submission first as an interested party for members connected to Aurora's network. Secondly is our interest in continuous improvement of the regulatory regime governing line monopolies.
4. MEUG congratulates Aurora on the constructive, pro-active and very clear communications and engagement with consumers connected to its networks by way of surveys with end customers, Customer Voice Panel meetings and Customer Advisory Panel workshops. We appreciated the briefing by you and senior Aurora staff at the MEUG monthly meeting in Wellington on 20<sup>th</sup> November 2019.<sup>2</sup>
5. The sections that follow discuss three items to consider in preparing the CPP application to the Commission:
  - Reconciling proposed work priorities with the WSP report;
  - Disaggregated estimates of changes in price, quality and trade-offs are needed using DPP as the counterfactual; and
  - Should WACC differ for a 3-year CPP?

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<sup>1</sup> <https://yoursay.auroraenergy.co.nz/50381/documents/120845> found at <https://yoursay.auroraenergy.co.nz/>.

<sup>2</sup> A copy of the presentation slides by Aurora to the MEUG meeting are posted at <http://www.meug.co.nz/node/1037>.

## Reconciling proposed work priorities with the WSP report

- The independent review by WSP finalised in November 2018 concluded with a summary of risk by asset class in figure 18.1.<sup>3</sup> A snapshot of that figure follows.



- MEUG suggests interested parties would benefit by having a reconciliation in the CPP application between the asset risk assessment by WSP and the work programme priorities in the proposed CPP work programme.

## Disaggregated estimates of changes in price, quality and trade-offs are needed using DPP as the counterfactual

- The consultation paper seeks feedback on the proposed Aurora CPP revenue and quality path.<sup>4</sup> It's unclear if the forecasts of capital and operating spend in the table at the bottom of page 22 includes all components of the regulated revenue path, e.g. return on and of capital.
- We think better feedback would be obtained with more disaggregated estimates of changes in price, quality and trade-offs between price and quality. The consultation paper does provide some disaggregation over the 3-network areas of Dunedin, Central Otago and Wanaka, and Queenstown Lakes for forecasts on average residential and small businesses.<sup>5</sup> However there is no matching disaggregated estimates of the effect on quality (unplanned and planned outages) for those three pricing regions.
- The proposal needs to be clear and consistent when comparing CPP options to refer to the Default Price-Quality Path (DPP) as the counterfactual. For example, on 'What we invest in' on page 22 of the CPP consultation paper, the percentage assets at the end of their useful life in the column headed 'After 3 years under our proposed plan' is compared to 'if we spend nothing at all'. This is an incorrect and misleading comparison. The relevant comparator is the percentage of asset at the end of their useful lives under the DPP. Similarly it would be helpful if the change in unplanned and planned outage duration was

<sup>3</sup> WSP report at <https://yoursay.auroraenergy.co.nz/45538/documents/104982>

<sup>4</sup> Consultation paper p22 for forecast costs and p25 for forecast unplanned and planned outages.

<sup>5</sup> Ibid p26 and 27.

compared to the expected outcome under the DPP and for outages and if the impact on unplanned outages was specified as the fall in unplanned outages caused by factors that are attributable to the proposed spend such as defective equipment.

11. The CPP application needs to demonstrate, relative to a counterfactual where Aurora's spend was limited to a DPP, that the present value of the incremental increase in charges exceeds the net change in Value of Loss Load (VoLL for both unplanned and planned outages) for as discrete a breakdown of customers/sub-regions as is feasible. That analysis will enable interested parties to compare the relative incidence of the benefits (e.g. change in VoLL) and costs (change in prices) of the proposed CPP between customer classes across regions.
12. MEUG notes the WSP report used different VoLL for each of the pricing regions.<sup>6</sup> Those VoLL were an average across all customer classes. We are not sure why VoLL for each customer class were not used. Subject to any reason why grand averages must be used, MEUG recommends the CPP application should use customer class specific VoLL for each pricing region.
13. The above feedback aligns with feedback from the Customer Voice Panel who told Aurora:<sup>7</sup>
  - In the third panel that they "Need to see clear benefits if prices are to increase."
  - In the sixth panel that "Participants thought customers would like to see, and will benefit from, a breakdown of where the total expenditure is going 'to make the big numbers more meaningful.'"

#### Should WACC differ for a 3-year CPP?

14. From experience we know small changes in the parameters for estimating the Weighted Average Cost of Capital (WACC) used to establish the revenue path can have material effects on the charges payable by customers and income received by the regulated monopoly.<sup>8</sup> Some of the forecast WACC parameters are dependent on the forecast period the revenue price applies to.
15. MEUG suggests that to give an assurance to both the owners of Aurora and its customers, an assessment be made of whether changes in WACC parameter(s) might have a material effect on WACC for the proposed shorter 3-year versus usual 5-year term.

Yours sincerely



Ralph Matthes  
Executive Director

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<sup>6</sup> WSP report p20, Table 4.3.

<sup>7</sup> <https://yoursay.auroraenergy.co.nz/Customer-voice-panel>.

<sup>8</sup> By "material" MEUG refers to a change of +/- 5%.