

## Have your say on Powerco's proposal to change its prices and quality standards

Process for determining Powerco's customised price-quality path

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## Powerco has proposed changes to its prices and quality standards

- 1 On 12 June 2017 Powerco submitted a proposal to the Commission for a customised price-quality path (CPP) to allow it to increase prices to invest in its electricity distribution network.
- 2 In response, we have commenced a process to review Powerco's proposal and make a decision on the new prices and quality standards to apply. A final decision would apply to Powerco for five years starting 1 April 2018.

### Why we have written this paper

- 3 We expect the process to review and make a decision on Powerco's proposal will take approximately nine months. During this time we will be seeking feedback on both Powerco's proposal and a draft of our decision.
- 4 This paper is intended to prepare consumers and other interested parties to provide their views during our process to set Powerco's CPP. It does this by explaining:
  - 4.1 our role in setting prices and quality standards; and
  - 4.2 how you can have your say on Powerco's proposal.

**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.

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.

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**.

## Powerco's customised price path

**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)

Map labels: Thames, Tauranga, New Plymouth, Whanganui, Palmerston North, Masterton.

COMMERCE COMMISSION  
NEW ZEALAND  
Te Kaitiaki Takekōwhiri

## Our role in setting prices and quality standards

- 5 The Commission is responsible for regulating the prices and quality of service provided by electricity distributors, such as Powerco, across New Zealand. This regulation exists because electricity distributors face little or no competition.
- 6 Our role is important as our decisions affect:
  - 6.1 the prices charged by electricity distributors which are passed on to consumers as a major component of retail electricity prices;<sup>1</sup> and
  - 6.2 the quality of service consumers receive, in particular the frequency and duration of power outages.
- 7 Our regulation is applied by setting the maximum revenues businesses are allowed to earn, and quality standards which impose minimum service levels for quality. In doing this, we seek to promote the long-term benefit of consumers by:
  - 7.1 considering what outcomes would occur in a workably competitive market;
  - 7.2 promoting incentives for Powerco to innovate, invest, improve efficiency, and provide services at a quality that reflects consumer demands, and share efficiency gains with consumers; and
  - 7.3 limiting Powerco’s ability to extract excessive profits.
- 8 Our decisions do not specify the individual prices that Powerco and other electricity distributors charge their customers. Electricity distributors may charge different prices across different regions and different types of customers—as long as they do not exceed the maximum revenue allowed by the Commission.
- 9 To understand more about our role in regulating electricity distributors please visit [www.comcom.govt.nz/regulated-industries/electricity/electricity-role/](http://www.comcom.govt.nz/regulated-industries/electricity/electricity-role/).

### How our role relates to Powerco’s proposal for a CPP

- 10 Currently, Powerco’s prices and quality standards are set through a default price-quality path (**DPP**). The DPP applies to 16 electricity distributors across New Zealand. It is reset every five years using generic assumptions as a relatively low-cost way to regulate these businesses.
- 11 The DPP will not suit the needs of all businesses over time however, and they may submit a proposal to the Commission for a CPP as Powerco has done. Under a CPP

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<sup>1</sup> 26.2% of the annual electricity bill of a typical New Zealand residential customer is made up of distribution charges. See Electricity Authority “My Power Bill” (16 March 2016) at: <http://www.ea.govt.nz/consumers/my-electricity-bill/>

we can take into account more of the specific circumstances of the individual business, and determine a new set of prices and quality standards we consider appropriate.

- 12 In determining a CPP for Powerco, we will consider whether Powerco's proposed expenditure is prudent and efficient. We will scrutinise:
- 12.1 proposed capital expenditure projects and forecast costs;
  - 12.2 the impact of the proposed expenditure on prices and the level of reliability provided to consumers; and
  - 12.3 Powerco's ability to deliver its proposed plan of expenditure.
- 13 To understand more about our role in setting CPPs please visit [www.comcom.govt.nz/regulated-industries/electricity/cpp/cpp-fact-sheet/](http://www.comcom.govt.nz/regulated-industries/electricity/cpp/cpp-fact-sheet/).

### **How you can have your say on Powerco's proposal**

- 14 To best ensure our decision on a CPP for Powerco promotes the long-term benefit of consumers, we are seeking consumer and others' views on Powerco's proposal.
- 15 These views are important to help us understand how satisfied customers are with the way Powerco has taken account of their views in formulating its proposal. In particular, we are interested in how consumers view the current level of service provided by Powerco and their willingness to pay for maintenance and improvements.

### **Opportunities to provide your views**

- 16 In the first instance, we encourage consumers and interested parties to become familiar with Powerco's proposal and register their interest in receiving further communications during our process.
- 16.1 To read Powerco's proposal please visit our website <http://www.comcom.govt.nz/PowercoCPP> or Powerco's own website [www.yourenergyfuture.co.nz](http://www.yourenergyfuture.co.nz).
  - 16.2 To register your interest in our process please email: [PowercoCPP@comcom.govt.nz](mailto:PowercoCPP@comcom.govt.nz).
- 17 The first step in our formal consultation process will be to publish a consultation paper in August 2017 that will contain:
- 17.1 A summary of the key features of Powerco's proposal;
  - 17.2 Our initial views on any issues with Powerco's proposal; and
  - 17.3 Questions for consumers and stakeholders to consider.

- 18 In response, we want consumers and other interested parties to submit their views by the due date to be specified in the consultation paper. This will allow us time to consider submissions and meet our timeframes for this process.
- 19 Next, in November 2017, we will publish a draft decision on the allowed revenues and quality standards we consider should apply to Powerco. This draft will be open to feedback from all interested persons with submissions due in December 2017, and cross-submissions on matters raised in submissions from other parties, due in January 2018.
- 20 We expect to make our final decision on Powerco's CPP by 29 March 2018. Our decision will apply to Powerco from 1 April 2018.

### Summary of our process

Process step	Date
Consultation paper published	August 2017
Submissions due on Powerco's proposal	September 2017
Draft decision on Powerco's allowed revenues and required quality standards	November 2017
Submissions due on draft decision	December 2017
Cross-submissions due on matters raised in submissions on draft decision	January 2018
Final decision on Powerco's allowed revenues and required quality standards	29 March 2018

### Providing your views

- 21 Please email submissions to [PowercoCPP@comcom.govt.nz](mailto:PowercoCPP@comcom.govt.nz) with 'Powerco CPP proposal' in the subject line. All submissions will be published on our website.
- 22 All consultation materials produced by the Commission will also be available on our website.

### Please contact us with any questions

- 23 Please contact Dane Gunnell, Powerco CPP Project Manager, if you have any questions. Email: [PowercoCPP@comcom.govt.nz](mailto:PowercoCPP@comcom.govt.nz), attention: Dane Gunnell