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Input Methodologies Review – draft decisions

Topic 7: Related Party Transactions

Introduction

Asplundh welcomes the opportunity to submit on the Commerce Commission's ("the Commission") draft decisions on the *Input Methodologies* review (released on 16 June 2016). Our submission specifically relates to Topic Paper 7: Related Party Transactions, and focusses on the key issues which are related to network vegetation management services across the NZ utility industry.

Summary

Asplundh supports the Commission's proposal to further explore Related Party Transactions.

We believe this is appropriate to provide the Commission with confidence and transparency that network owners are delivering competitive/value for money services to customers.

We acknowledge that the regulatory framework for the utility industry in NZ is complex, and we do not purport to be subject matter experts in the Input Methodologies or Information Disclosure. Our submission is made based on principles and our experiences within the NZ electricity network industry.

Submission – Topic 7: Related Party Transactions

Within the NZ electricity network industry there is a range of approaches being utilised for network ownership, operation and contracting services – ranging from completely in-house solutions, through to fully managed external service providers.

Across Electricity Distribution Businesses ("EDBs") there currently appears to be a lack of truly competitive process for obtaining and delivering network vegetation management services as part of their OPEX programmes. For example, approximately 8 of 29 EDBs utilise external vegetation service providers, with only some of these applying competitive market tendering processes. The remainder of EDBs use in-house or internal contracting services to deliver vegetation management services.

Based on data from PWC's 2014 *Information Disclosure Compendium*, EDBs have forecast to spend approximately \$379million over 10 years on network vegetation management, which equates to approximately 17% of their 10 year OPEX forecast.

Our view is that currently between 50%-80% of network vegetation OPEX is delivered in-house or by contactors selected using limited competitive processes. Drawing on our experiences of delivering services to EDBs, we have seen that there are situations where network vegetation management services can be delivered by experienced external service providers more cost effectively than internal contracting services. We have seen examples where we are 33% (or greater) more cost effective than the current internal contracting services.

Asplundh is not opposed to EDBs utilising internal contracting services where there are real benefits. However, we strongly believe that significant benefits are available to EDBs and their customers if external market providers are able to truly compete for these network vegetation management services.

The potential benefits to EDBs and customers come through:

- Cost-efficiency increases (value for money) on delivery of network vegetation OPEX. It is important to note that we do not believe EDBs are overspending on network vegetation management, but that increased efficiency supports the delivery of a larger works programme within the same OPEX budget.
- Increasing the level of vegetation management service provider competition in regional markets. This supports the ability of EDBs and customers to meet their legal obligations under the Electricity (Hazards from Trees) Regulations 2003, through enabling cost efficient completion of regulatory clearance cuts.
- Ultimately supporting the reduction of an EDBs network vegetation risk profile, in terms of public safety, faults, customer impact and network reliability.

Proposal

Asplundh supports the Commission's proposal to further explore Related Party Transactions. As part of this review, network vegetation management is an element which we strongly believe requires investigation to ensure competitive OPEX is delivered by EDBs to their customers.

Thank you for the opportunity to make this submission. If you have any questions please contact me.



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