

Commerce Commission
P O Box 2351
Wellington 6140

For the Attention of: Dr Simon Todd

21 November 2016

Dear Simon

Report on Powerco distribution supplier evidence assessment responses

1. I am pleased to provide this report setting out Strata Energy Consulting Limited's (Strata) recommendations to the Commerce Commission on the explanations and evidence provided by Powerco in response to the questions posed to them in your document attached to your email of 21 November 2016.
2. Two questions were put to Powerco following AMP evidence assessment of their 2016-2026 transitional Asset Management Plan update (AMP), published 28 September 2016.
3. The following table provides Strata's recommendations and reasons relevant to each of the questions posed by the Commerce Commission to Powerco:

Question	Question posed	Strata recommendation	Rationale
1.1	Explanation of the step change increase in reliability, safety and environment planning capex, and demonstration of how the forecast was arrived at.	Strata recommends that the increased level of expenditure proposed for the reliability, safety and environment planning capex category be accepted for the 2018-2022 DPP	Powerco, in its supplier evidence assessment, sets out clear rationale for the increased capex between 2013 and 2015. Efficient deferral of major projects resulting from improved asset management and optimal reassessment of investment are explanations given for the increases. Certain projects were deferred due to inability to deliver projects during the period (e.g. for component supply delays). Powerco also provided a clear understanding of the development of the 2017 to 2022 forecast. In attachment B Powerco describes each of the current and forecast projects in this category and their justifications.
1.2	Explanation of Powerco's capex over-forecast variances with historical actual expenditure. When 2013, 2014 and 2015 actual total capex expenditure is compared with what was forecast there are significant differences. We are looking for reassurance that there is no systematic over-forecasting occurring in this expenditure category.	Strata recommends that the explanations provided by Powerco for the variance between capex forecasts and historic actual expenditure be accepted and relied on as providing reassurance that there is no systematic over-forecasting of capex.	Powerco provides explanations to addresses the significant variance year-on-year in 2013, 2014 and 2015 capex forecasts and actuals. The variances are attributed to multiple factors set out in detail in attachment A, these include: <ul style="list-style-type: none"> • project deferrals • changes to the contractor delivery model impacting deliverability • contractor liquidation and ownership changes (these are now overcome) • impact of health and safety legislation on project planning • key equipment delivery delays • delayed sub-division developments (which have now picked up) • asset management maturity limitations (now improved) Powerco explains how each of the above issues have been overcome and should not impact on deliverability of the forecast projects and programmes. While, in Strata's opinion some of the reasons for variances may still exist, we consider that Powerco has provided sufficient evidence to enable Strata to conclude that the effect of any future variances due to factors other than efficiency gains, should be minimal over the assessment period.

Summary of recommendations

4. Strata recommends that:
 - 1) the explanations provided to question 1.1 be accepted and the resultant capex forecast for reliability, safety and environment expenditure capex be accepted.
 - 2) the explanations provided to question 1.2 on forecast variances be accepted; and
 - 3) the additional information provided by Powerco's provides sufficient assurance that the reasons for variances between historic capex forecasting and actuals have been addressed.
5. Accordingly, Strata considers that Powerco has adequately addressed the questions posed by the Commission.

Regards



Bill Heaps
Managing Director
Strata Energy Consulting Limited