



20 September 2017

To Whom it May Concern
Commerce Commission
By email: powercocpp@comcom.govt.nz

Dear Sir/Madam

Powerco CPP

Orion New Zealand Limited (Orion) appreciates the Commerce Commission (the Commission) invitation to submit on Powerco’s CPP proposal (the proposal).

1. In our opinion Powerco has carefully articulated the current and changing needs and expectations of its customers while using their knowledge of existing asset health, condition and configuration to ascertain capability to deliver the desired outcomes at present revenue levels. Their decision to apply for a CPP reflects their conclusion that current revenue levels are not suitable to meet these objectives.
2. In the Commission’s final decision on Orion’s CPP application, in November 2013, the following observation was made;

“1.40 When a supplier makes a CPP application, we assume that the proposal has been robustly challenged by senior management and the Board before submission. We consider that vigorous review of major expenditure by senior management and the Board should be standard practice for all regulated suppliers. We would expect that the internal evaluation of a CPP proposal by a prudent supplier would ensure that a proposal is critically considered and balances:

1.40.1 customer needs and willingness to pay;

1.40.2 risk; and

1.40.3 reasonableness, affordability and deliverability of spend plans derived from the bottom up.”¹

3. Powerco have clearly considered and balanced the three limbs expected by the Commission in the above statement. It appears that the proposal strikes the right balance between understanding customer’s desired levels of quality (thorough extensive consultation not seen in our industry to date), willingness to pay and affordability in conjunction with prudent expenditure to execute on deliverability and maintain a safe, responsive, reliable and resilient network into the future.

¹ Setting the customised price-quality path for Orion New Zealand Limited, final reasons paper Nov 2013 page 17

4. This submission focuses on the following areas of interest to the Commission;

- Quality standards
- Long term pricing impact
- Asset health and criticality and impact on capex forecasts
- Network evolution capex
- Opex forecasts
- Deliverability risk

Quality Standards

5. Flexibility will be required to ensure planned work can be carried out as outlined in the proposal.
6. Orion has demonstrated that targeted improvement plans focussed on reliability are achievable during high planned work periods but acknowledge that the network withstanding external environmental conditions, and their variability, still has the greatest impact on unplanned statistics. While efficiencies from expenditure improvements may take time to reflect fully in SAIDI and SAIFI statistics we support incremental limit adjustment to SAID/SAIFI limit setting to reflect the benefits of improvement initiatives.
7. Powerco have proposed a 0% weighting for planned outages during the CPP period. We agree with Powerco's statement that there should be "no opportunity to gain financially by reducing planned outages to less than the proposed quality path". We suggest that a pragmatic approach is required in acknowledgement of the volume of planned work proposed. An asymmetric target over the 5 year CPP period may be appropriate. Any requirement needs to be proportionate, timely, customer service focussed and cost effective without detracting from the task of programme implementation.

Long term pricing impact

8. Our awareness that the cost of Powerco's CPP goes beyond the CPP period does not change our view of the proposal. We appreciate that customers may view cost increases negatively however Powerco's proposal demonstrates that they have listened to customer feedback, adjusted their proposal accordingly, and minimised the price path impact on actual electricity bill increases. In our opinion it is appropriate for the Commission to wait to address whether there is a price increase that should be considered at the beginning of the subsequent period post CPP. Adjusting the proposal runs the risk of undermining the outcomes from the customer consultation and feedback process already completed by Powerco.

Asset health and criticality and impact on capex forecasts

9. We agree that prioritising asset health and criticality analysis into asset management practices is a priority. We have incorporated this approach into our asset management planning and continue to look for ways to develop this further. Implementation requires increasing asset knowledge and data storage, analytics and collaboration across the business in order to capture industry experience. Human resource is critical to the success and timeliness of the approach along with providing the necessary judgement. We integrate asset health and criticality into our asset management processes through condition based risk management assessment and articulation in asset management reports by asset type that then inform the forecast quantities and costs discussed in the AMP.
10. Powerco's progressive improvement in its average AMMAT score between 2013 (1.9) and 2017 (2.4) demonstrates their commitment to make the incremental changes required toward PAS55.
11. The extensive interaction Powerco will have with its assets during the CPP work programme provides opportunity for determining data collection points and collecting this data as work proceeds for the benefit of long term asset management improvement and customer service.
12. Development of a condition based risk management approach to asset management incorporates asset criticality, safety, environmental and other locational/service factors in identifying assets for timely intervention. Starting with a focus on safety will help bring in the discipline of safety by design principles and by its nature will begin to incorporate the other criticality factors. Incorporating trends in reliability statistics by asset type informs targeted asset replacement programmes that benefit consumer service experience and system resilience.
13. We believe it is appropriate for Powerco to embed its asset criticality framework during the CPP period.

Network evolution capex

14. The IEA 2017 report discussed potential future business models for EDBs being 'platform for services' and 'value-adding services'. Powerco's network evolution expenditure discusses a roadmap to DSI (distribution system integration) followed by DSO (distribution system operator) - a platform for services approach. Powerco has indicated, and we are all aware, that there are uncertainties in the current external environment with respect to new technologies and customer response. However the IEA report supported this approach in the New Zealand context- "New Zealand's decision to physically unbundle distribution and retail activities in the late 1990s created a distribution sector structure that had the potential to efficiently and cost-effectively transit into a platform for services model."² Awaiting absolute clarity would prevent the necessary evolution and testing necessary for EDBs to fulfil their role as enablers for the nation.

² IEA report 2017 page 142

15. Reaching a DSI and DSO level of maturity requires investment in information solutions (note Powerco's request for further ICT staff³), deployment of sensing and monitoring devices in the field (Powerco's network automation programme⁴) along with internal training and capability over time. The lead time here is important to ensure EDBs have the systems in place in a timely manner i.e. we must ramp up in parallel with customer adoption of new technologies such as EVs, solar and batteries.
16. The timing of network evolution requires lead time ahead of customer behavioural change (which all information suggests is inevitable) for systems development, sensor and monitoring equipment deployment (Powerco's network automation programme), training and experience with these systems. DSI is an appropriate interim step towards DSO and intelligent networks. As Powerco state in their proposal "Conversely, international experience suggest that investing only once significant change is taking place is inefficient and costly- a belated response often has to rely on traditional solutions, which are then the only available means of resolving issues in the short term. Being ready with innovative solutions, when these are required, is substantially more cost-effective."⁵ All of the initiatives within the DSI to DSO pathway are identified as bringing safety, cost efficiency and reliability benefits- three fundamental outcomes consistent with Part 4, the Health and Safety at Work Act and good asset management practices.
17. Investment such as this has occurred in the past as EDBs moved away from pin wallboards to SCADA, electronic network mapping, outage tracing and geographic information systems. This is the next step in an ongoing roadmap focused on customer service using data, technology and analytics.
18. Network evolution expenditure will be necessary to ensure customers of the future can be effectively served. As Powerco state in their proposal the role of the future includes "making the distribution network available as an open-access platform to which customers can connect (within safe bounds) any devices they require, or over which they can transact with others as they see fit."⁶ We support the flexibility for trials and pilots for potentially more efficient solutions to network development across all EDBs.
19. Emerging technology is interlinked with urbanisation and changing customer expectations about service levels. A review of security standards and network architecture is a prudent asset management framework step.
20. The Energy UK report on Pathways for the GB electricity sector to 2030 delivered a clear message from industry that "there needs to be an open and honest debate with the public about the costs of moving to a low-carbon economy". Powerco's roadmap to DSI and DSO is part of these emerging costs to ensure distributors can support and manage more complex energy flows at all levels in the system for the long term choice and benefit of consumers.

³ Powerco CPP main proposal page 202

⁴ Powerco CPP main proposal Section 12.7.1 page 143

⁵ Powerco CPP main proposal page 154

⁶ Powerco CPP main proposal page 153

21. We support Powerco's forward thinking proposal and agree that many EDBs are considering network evolution expenditure in the near future. EDBs already collaborate on many fronts and opportunities for sharing of innovations will continue. Regulators should be open to allowances for network evolution expenditure to support EDB continual improvement, system evolution and efficient delivery of the distribution service.
22. Work to move to DSI and DSO capability should be included as part of Powerco's network evolution allowance and is in the long term interests of consumers.

Opex Forecasts

23. There is an increasing expectation that EDBs engage with customers to understand their needs, issues and service requirements. This can be achieved through push and pull communications, customer enquiries, complaints, surveys, workshops, focus groups and use of advisory panels. These requirements are necessary for a sustainable business but they do come at a cost. We have a dedicated contact centre that we find invaluable for day to day interactions and learnings with our customers.
24. Post 1998 reform many EDBs relinquished contact centre functions to retailers. Subsequently many bought this function back in house for the following reasons;
 - EDBs serve customers and need to provide customer service
 - it is difficult to service the customer well without a direct link to them
 - during adverse weather events critical information took too long to reach the EDB affecting safety and response times. The new Health and Safety at Work Act illustrates that the public and Parliament seek an improvement in safety outcomes for workers and the community.
 - direct conversations with customers ensures accurate information transfer and allows appropriate two way conversations without the risk of misinterpretation via a third party
 - having a call centre provides for daily customer engagement and allows the 'pulse' and expectations of the community to be monitored
25. Given the level of network augmentation indicated by Powerco's proposal we support an in-house contact centre for Powerco.

Deliverability risk

26. Powerco have demonstrated close alignment between forecasts and deliverability (actual expenditure) in their past performance (refer Commission dashboards released May 2017). The proposal has also considered the potential for skills shortages, health and safety control, quality of resources, and materials lead time and availability. They report that;
- they have tested the potential for skills shortage with service providers and have in principle agreements for delivery in place
 - they are increasing project management resource and specialised health and safety support⁷ to maintain health and safety control
 - they have tested and reviewed the potential for materials lead time and availability with suppliers
 - they have reviewed and tested the potential for other resource availability such as trucks
27. Our assessment is that Powerco have taken a prudent and collaborative approach with contracting service providers and suppliers to ensuring deliverability. In our opinion adverse weather is the only other key variable which would impact on deliverability of planned work.
28. We agree with the Commission that monitoring of the year-on-year progress against Powerco's planned work programme would hold Powerco accountable for the delivery of its work programme and highlight areas where deliverability is at risk. Monitoring of both hours worked on planned work and expenditure provides a double lens on work programme delivery and any resourcing constraints.
29. The Commission should consider materiality when deciding the level of detail and frequency of planned work reporting. The potential number of customers affected by consecutive outages relating to a particular work programme may provide an indicator however this may only be appropriate for project level work of a particular value. Ongoing routine maintenance such as pole, crossarm, insulator replacement or retightening may be more difficult to monitor based on customer outages and may be more appropriately monitored by work order issue and completion.

Conclusion

30. Powerco has carried out significant customer consultation, preparation, analysis and peer review in support of its CPP application. It appears from the proposal that the planned asset management interventions are sought in the best interests of consumers to ensure appropriate network delivery services now and in the future.

⁷ Powerco CPP main proposal page 202

Yours sincerely

A handwritten signature in blue ink, appearing to read 'DP', with a long horizontal flourish extending to the right.

Dayle Parris
Regulatory Manager