

[Date] 2019

To: Transpower New Zealand Limited

PO Box 1021

WELLINGTON

[DRAFT] Notice to supply information to the Commerce Commission under section 53ZD(1)(d), (e), and (f) of the Commerce Act 1986 - Requirements for asset health and risk modelling information

Background

1. In our August 2019 decisions and reasons paper for the individual price-quality path that will apply to Transpower New Zealand Limited (**Transpower**) from 1 April 2020, we (the Commerce Commission – the **Commission**) identified that we would issue an information request to **Transpower** under section 53ZD(1) of Commerce Act 1986 (the **Act**) to provide us with information regarding its asset health and risk modelling.
2. We now require this information from **Transpower** under section 53ZD(1)(d), (e) and (f) of the **Act**. Specifically, we require **Transpower**:¹
 - 2.1 under s 53ZD(1)(d) of the **Act**, to produce a roadmap at the start of **RCP3** setting out plans for developing its asset health and risk models, asset life-extension models, and risk-based decision-making frameworks in preparation for its **RCP4** proposal (**development roadmap**);
 - 2.2 under s 53ZD(1)(e) of the **Act**, to provide information annually on its progress in developing asset health and risk models, asset life-extension models, and risk-based decision-making frameworks (**annual update**); and
 - 2.3 under s 53ZD(1)(f) of the **Act**, to obtain an opinion (**expert opinion**) midway through **RCP3** from an **independent expert** on **Transpower's** progress in developing its asset health and risk models, asset life-extension models, and risk-based decision-making frameworks.
3. The information is to give us confidence in the evaluation process for **RCP4**.

¹ Commerce Commission “Transpower’s individual price-quality path from 1 April 2020 – Decisions and reason paper” (29 August 2019), at [L71].

4. The specific requirements for the **development roadmap, annual update, and expert report** are set out in Schedule A of this notice.
5. We note that section 103 of the **Act** provides that no person shall:
 - 5.1 without reasonable excuse, refuse or fail to comply with a notice under section 53ZD of the **Act**;
 - 5.2 in purported compliance with such a notice, furnish information, or produce a document, or give evidence, knowing it to be false or misleading; or
 - 5.3 attempt to deceive or knowingly mislead the **Commission** in relation to any matter before it.
6. It is an offence to contravene section 103 of the **Act** and any person who does so is liable on summary conviction to a fine not exceeding \$100,000 in the case of an individual or \$300,000 in the case of a body corporate.

Purpose of the Notice

7. We require this information because we seek to understand the development path of **Transpower's** asset health modelling and risk understanding over **RCP3** in preparation for **RCP4**. This understanding will inform and assist our function under s 53P of the **Act** of assessing and resetting **Transpower's base capex, operating expenditure, and quality standards** for **RCP4**.
8. In particular, the **annual update** will assist our ongoing investigation into **Transpower's** progress in developing its asset health and risk models, asset life-extension models, and risk-based decision-making frameworks. Improving our understanding of these matters will better enable us to consider and assess, for example, the relationship between **grid output measures** proposed for **RCP4** and **Transpower capex and operating expenditure**.

Date, place and format of responses

9. **Transpower** must supply the **development roadmap** no later than 105 **working days** from the end of the final **disclosure year** of **RCP2**.
10. **Transpower** must prepare and provide proposed terms of reference for the **expert opinion** (the **terms of reference**) to the **Commission** by no later than 28 February 2021. **Transpower** must provide for any feedback the **Commission** provides on the proposed **terms of reference**, and finalise the **terms of reference** by no later than 31 March 2021.
11. **Transpower** must supply the **expert opinion** no later than 105 **working days** from the **disclosure year** ending 30 June 2022.
12. **Transpower** must supply each **annual update** no later than 105 **working days** from the end of the relevant **disclosure year**.
13. The **Commission** may, at its absolute discretion, on **Transpower's** application, grant **Transpower** an extension to the time limits set out in clauses 8, 10 and 11 of this notice.

14. For the purposes of clause 13:
- 14.1 where Transpower applies for an extension, its application must:
- 14.1.1 explain why **Transpower** considers that an extension to the time limit is reasonably justified having regard to the circumstances; and
- 14.1.2 be made no later than 15 **working days** before the applicable time limit is due to expire; and
- 14.2 in circumstances where the **Commission** decides to grant **Transpower** an extension:
- 14.2.1 the extension shall be effected by giving or posting notice of the extension to **Transpower**; and
- 14.2.2 the notice effecting the extension must specify the period of the extension and the reasons for the extension.
15. **Transpower** must provide the **Commission** with the information required under this notice by either supplying the information directly to the **Commission**, or by making the information publicly available on **Transpower's** website, and by notifying the **Commission** that it has done so.
16. Where information must be supplied, or where notice must be given to the **Commission**, this must be done by no later than 4:30pm on the date specified.
17. Where **Transpower** is required to notify the **Commission**, it must do so by email to regulation.branch@comcom.govt.nz (Attention: Manager Price-Quality Regulation), with the subject line "Transpower- Response to section 53ZD Notice – Asset management: Issued November 2019".

Directors' certificate

18. Subject to clauses 13-14, for the **development roadmap** and for each **annual update**, **Transpower** must provide to the **Commission** a **directors' certificate** no later than 105 **working days** from the end of the relevant **disclosure year**.
19. **Transpower** may combine the **directors' certificate** with the equivalent certification required for:
- 19.1 the **annual compliance statement**; and
- 19.2 the **Commission's** 53ZD Notice – Customer consultation: Issued November 2019.

Interpretation

20. Unless the context otherwise requires—
- 20.1 terms used in this notice that are defined in the **Transpower IM Determination** or the **Capex IM Determination**, but not in this notice, have the meaning given in the **Transpower IM Determination** or **Capex IM Determination**, as applicable;
- 20.2 a word which denotes the singular also denotes the plural and vice versa;

- 20.3 **annual compliance statement** has the same meaning as defined in the **IPP determination**;
- 20.4 **capex** has the same meaning as defined in the **Capex IM Determination**;
- 20.5 **Capex IM Determination** means *Transpower Capital Expenditure Input Methodology Determination [2012] NZCC 2*;
- 20.6 **directors' certificate** means a certificate signed by two directors of **Transpower** in respect of the **development roadmap** and for each **annual update** to this notice, in the form set out in Schedule B of this notice, except that **Transpower** may modify the form in Schedule B to combine it with the equivalent certification for the **annual compliance statement** and the **Commission's** s 53ZD Notice – Customer consultation: Issued November 2019;
- 20.7 **disclosure year** has the same meaning as defined in the **Transpower IM Determination**;
- 20.8 **good electricity industry practice** has the meaning set out in the Electricity Industry Participation Code 2010;
- 20.9 **grid output measure** has the same meaning as defined in the **Capex IM Determination**;
- 20.10 **HVDC** means high voltage direct current;
- 20.11 **independent expert** means a person or organisation that:
- 20.11.1 has no relationship with, or interest in, **Transpower** that is likely to involve a conflict of interest between his, her or its duties to **Transpower** and his, her or its duties to the **Commission**; and
- 20.11.2 possesses sufficient expertise in the fields of asset management, asset health and network risk modelling;
- 20.12 **IPP** means individual price-quality path;
- 20.13 **IPP determination** means *Transpower Individual Price-Quality Path Determination 2020 [2019] NZCC [XX]*;
- 20.14 **operating expenditure** has the same meaning as defined in the **Transpower IM Determination**;
- 20.15 **quality standard** has the same meaning as defined in the **Capex IM Determination**;
- 20.16 **RCP2** means the regulatory period from 1 April 2015 to 31 March 2020, provided that references to the final **disclosure year** in RCP2 means the **disclosure year** ending on 30 June 2020;
- 20.17 **RCP3** means the regulatory period from 1 April 2020 to 31 March 2025, provided that references to the final **disclosure year** in RCP3 means the **disclosure year** ending on 30 June 2025;

- 20.18 **RCP4** means the regulatory period following **RCP3**;
- 20.19 **Transpower IM Determination** means the *Transpower Input Methodologies Determination* [2012] NZCC 17; and
- 20.20 **working days** has the meaning given in the Commerce Act 1986.

Use of supplied information and confidentiality

21. If **Transpower** considers that, for confidentiality reasons, the **Commission** should not publish or publicly refer to any particular part of its response, **Transpower** must:
- 21.1 specify the relevant part of the response and provide it to the **Commission**; and
- 21.2 give clear reasons why **Transpower** considers that part of the response is confidential.
22. If **Transpower** indicates that we should not publish or publicly refer to part of its response, we will discuss with **Transpower** before deciding whether or not to do so.
23. Where information is not publicly disclosed, **Transpower** must provide an unredacted version of the response to the **Commission** at the following email address: regulation.branch@comcom.govt.nz (Attention: Manager Price-Quality Regulation) at the same time the redacted version of the response is published on **Transpower's** website.
24. However, please note that all responses we receive, including any parts that we decide not to publish, can be requested under the Official Information Act 1982. This means, that if requested, we would be required to release material (whether published or not) unless good reason existed under the Official Information Act 1982 to withhold it. We would normally consult before releasing any material that **Transpower** requests not to be published.

Dated at Wellington: [XX XXXX] 2019

Signed by:

[XXXX]

Commissioner

Schedule A: Information required

Transpower to provide development roadmap for maturing asset health, asset life-extension and asset/network risk modelling

- A1 **Transpower** must produce a **development roadmap** that identifies:
- A1.1 the asset classes for which **Transpower** will further develop asset health models and asset life-extension models in line with the **Commission's RCP3** decision, including but not limited to:
 - A1.1.1 **HVDC** and dynamic reactive support assets: **Transpower** to develop bespoke **HVDC** and dynamic reactive support asset health models which are based on asset criticality and condition models typically used in power station facilities;
 - A1.1.2 Static reactive support assets;
 - A1.1.3 Secondary assets – SA Protection, Battery Systems and Revenue Meters: **Transpower** to implement its plans to develop a risk-based cost-benefit analysis framework for the evaluation of protection scheme capital expenditure planning; and
 - A1.1.4 Secondary assets – SA Substation Management Systems: **Transpower** to implement asset life-extension modelling by developing asset-centric health and criticality models;
 - A1.2 the asset and network risk-based decision-making frameworks that **Transpower** will develop;
 - A1.3 for each of the models and frameworks identified under clauses A1.1 and A1.2 above, the date at which **Transpower** expects each model and framework to be able to be used to:
 - A1.3.1 inform price/quality or asset investment/network risk trade-offs that can be made across the asset fleet (ie, how asset and network outage risk is affected by different asset investment strategies);
 - A1.3.2 sufficiently explain different investment strategies and the likely quality outcomes to external parties, firstly at a network level of granularity but with a goal to do this at each grid exit point; and
 - A1.3.3 set forward-looking performance measures;
 - A1.4 key milestones for the process of developing the asset and network risk modelling; and
 - A1.5 the date **Transpower** expects to reach each milestone.

Transpower to obtain an expert opinion on its progress

- A2 **Transpower** must obtain an **expert opinion**, having regard to the maturity of **Transpower's** asset management practices identified under clauses A1.1 and A1.2, in the **disclosure year** 31 July 2021 to 30 June 2022.
- A3 The **expert opinion** must:
- A3.1 give effect to, and be consistent with, the **terms of reference** finalised under clause 10 of this notice;
- A3.2 set out an assessment against **good electricity industry practice** of **Transpower's** progress towards implementing:
- A3.2.1 the further development of its asset health and asset life-extension modelling, where this has been identified as not yet sufficiently and reasonably developed, in line with clause A1.1; and
- A3.2.2 the further development of its asset and network risk-based decision-making frameworks, in line with clause A1.2 to enable network investment decision-making to be informed by risk during **RCP3** and in preparation for **RCP4**.

Transpower to provide annual update on its progress

- A4 For each **disclosure year** of **RCP3**, **Transpower** must produce an **annual update** that sets out the following information:
- A4.1 a statement of whether **Transpower** achieved the level of development, set out in the **development roadmap**, of asset health and risk models, asset life-extension models and risk-based decision-making frameworks;
- A4.2 where **Transpower** has not achieved the level of development set out in the **development roadmap** in respect of one or more of asset health and risk models, asset life-extension models and risk-based decision-making frameworks:
- A4.2.1 the difference between the level of progress **Transpower** achieved, and the level set out in its **development roadmap**;
- A4.2.2 an explanation of the reasons for the difference; and
- A4.2.3 the steps **Transpower** is taking in order to help ensure it still meets the deliverables of the **development roadmap**;
- A4.3 whether **Transpower** expects to achieve the level of progress set out in the **development roadmap** for the next **disclosure year** and, where it does not expect to achieve that level of progress:
- A4.3.1 the level of progress **Transpower** expects to achieve and how this compares to the **development roadmap**;

- A4.3.2 an explanation of the reasons for the difference; and
- A4.3.3 the steps **Transpower** is taking to help ensure that it will still meet the requirements of the **development roadmap**;
- A4.4 information about how the proposed **RCP3** asset health measures perform in each asset class, and in each year of **RCP3**, if these asset health measures had been revenue-linked as proposed by **Transpower** in its **RCP3** proposal;
- A4.5 information about how the proposed **RCP3** asset health measures perform in each asset class, and in each year of **RCP3**, where the actual percentage of assets with an asset health index (**AHI**) score greater than 8, exceed the collar value percentage of assets with an AHI score greater than 8, with the collar values set out in Table A1 below; and
- A4.6 in circumstances where **Transpower** proposes to do any additional work as a result of the **expert opinion**:
- A4.6.1 for the **disclosure year** from 1 July 2021 to 30 June 2022, how the additional work takes into account recommendations (if any) from the **expert opinion**, and a timeline for this additional work; and
- A4.6.2 for each **disclosure year** from 1 July 2022 to 30 June 2025, the information contained in clauses A4.3.1 to A4.3.3 above in relation to the additional work described in clause A4.6.1.

Table A1 AHI>8 percentage collar values

Asset class	2020/2021 (%)	2021/2022 (%)	2022/2023 (%)	2023/2024 (%)	2024/2025 (%)
Tower grillage foundation	7.11	8.17	8.22	7.89	9.47
Tower protective coating	5.77	6.81	8.09	8.94	9.96
Insulators	1.55	3.35	5.59	7.96	10.36
Power transformers	3.22	3.68	5.37	8.65	12.03
Outdoor circuit breakers	2.00	2.37	5.65	7.63	8.27

Schedule B: Director Certification of Information

Directors' Certificate

We, [insert full name of first director] and [insert full name of second director], being directors of Transpower New Zealand Limited (Transpower), certify that, having made all reasonable enquiry, to the best of our knowledge and belief, the attached information, dated [insert date], complies in all material respects with the requirements of the Commerce Commission's asset health and risk modelling information notice, issued in writing to Transpower under section 53ZD(1) of the Commerce Act 1986 on [insert date]*[except in the following respects:].

*[insert description of non-compliance if applicable]

[Signature of director]

[Signature of director]

[Date]

*Delete if inapplicable.