

14 June 2019

Open letter

Dear Stakeholder

Our programme of work for reviewing electricity distribution businesses asset management practices

Purpose of this letter

1. The purpose of this letter is to inform stakeholders of our proposed programme of work in reviewing the asset management practices of electricity distribution businesses (EDBs).
2. This letter outlines what we are trying to achieve by reviewing the asset management practices of EDBs and informs stakeholders of our current work programme in this area.
3. We welcome your feedback on the contents of this letter.

Our prioritisation of the assessment of asset management practices

4. Our open letter to electricity distribution sector stakeholders on the 9th of November 2017 stated that asset management is a key focus, notably EDBs' ability to manage their assets effectively, to maintain resilient networks, and to do both of these in a changing environment.¹
5. The letter reflected what we expected EDBs to be increasingly focusing on, which included among other things:
 - 5.1 the health and criticality of their assets;
 - 5.2 investment 'sufficiency'—the extent to which they are re-investing in assets at a prudent level; and
 - 5.3 appropriate levels of network resilience—the ability to maintain and restore electricity supply to consumers, particularly following high-impact, low-probability (HILP) events, such as earthquakes.
6. The letter also reflected the types of work which we intended to undertake in assessing asset management practices.
7. Since the issuance of the open letter we have:

¹ https://comcom.govt.nz/_data/assets/pdf_file/0019/59311/Open-letter-on-our-priorities-for-the-electricity-sector-for-201718-and-beyond-9-November-2017.PDF

- 7.1 Provided observations from our review of EDBs' 2016 and 2017 Asset Management Plans (AMP);²
 - 7.2 Continued with our programme of site visits and wider engagement with EDBs;
 - 7.3 Prepared a paper and presented on the role of criticality modelling at the EEA Conference in 2018; and³
 - 7.4 Engaged in the independent review of the state of the Aurora network as prepared by independent consultant, WSP⁴
8. In addition, we will shortly be releasing a revised Performance Accessibility Tool which provides greater visibility of both the age and condition of assets on EDB networks, and an increased ability to compare actual levels of capital and operating expenditure against forecasts.

Our review of asset management practices

9. Responsibility and accountability for sound asset management practices and decisions rests with the EDBs. However, we are seeking to encourage improvement in their practices and understanding of them by stakeholders because poor asset management can impose significant costs on consumers through inefficient delivery of services and poor quality outcomes.
10. Our programme of work to achieve this includes:
 - 10.1 Disseminating good practice; both in terms of asset management practices and disclosure of these practices within the AMP; and
 - 10.2 Identification of potential risks which may not currently have active mitigation.
11. By these means we expect EDBs will:
 - 11.1 Have information from which to assess how their own practices align to good or best practice and take account of such risks;
 - 11.2 Accurately reflect current practices in their AMPs, including where these may not currently align with good or best practices;
 - 11.3 Use their AMPs to discuss mitigation steps being taken around identified potential risks, where relevant; and

² <https://comcom.govt.nz/regulated-industries/electricity-lines/electricity-distributor-performance-and-data/review-of-asset-management-plans>

³ <https://comcom.govt.nz/regulated-industries/electricity-lines/commissions-role-in-electricity-lines/our-priorities-in-electricity-distribution>

⁴ <https://comcom.govt.nz/regulated-industries/electricity-lines/projects/aurora-energy-independent-review-of-the-state-of-the-network>

- 11.4 Where practices may not currently align to good or best practice, include credible and appropriate plans for improvement in their AMPs
12. Whilst we will actively look to disseminate good asset management practice to encourage improvement across the sector, we accept that some EDBs' practices may not necessarily be currently aligned with best practice. However, we do expect that EDBs will reflect the nature of their practices and network condition accurately in their disclosures and where appropriate have credible plans for improvement.

Why we are focusing on AMPs

13. AMPs are an important source of information for understanding and assessing supplier performance and asset management processes for a wide range of stakeholders.
14. We use information contained within the AMP in setting price-quality paths, undertaking investigations of non-compliance with quality standards, performing summary and analysis and to inform other Commission programmes of work.
15. From our engagement with EDBs to date, we are aware of a number of positive initiatives which are not reflected in the AMPs. We are aware that good asset management practice is a wide-ranging topic and EDBs have to make judgement on what they disclose within their AMPs. Accordingly, there may be further content which may be useful for an interested person, but that content is not required to be disclosed under the current disclosure requirements.
16. Ongoing engagement with EDBs on what we have found beneficial in reviewing AMPs will help inform where additional guidance may be of benefit and will inform future discussions on potential changes to the information disclosure requirements.
17. We will continue to review AMPs closely, including, where appropriate, considering whether EDBs' disclosures comply with the requirements in our determinations. In particular, we will assess whether the practices represented by an EDB within its AMP are in fact being applied by that EDB. Where it is identified that an EDB has included false or misleading information within its AMP, the Commission will consider enforcement action, including civil or criminal proceedings seeking the imposition of financial penalties under sections 86 or 86B of the Commerce Act 1986.

Current projects in the asset management programme

Review of EDB risk preparedness

18. Alongside this open letter we have issued a report prepared by Partna Consulting Group Ltd (Partna). The scope of the review was a limited desk-top study of how EDBs have accounted for risk, including resilience preparedness, as represented within the 2018 AMPs and 2019 AMP updates.

19. Our intention in releasing this report is to further the conversation on risk and resilience with regards to information which is readily available for interested stakeholders.
20. This review was based solely on disclosed information in the AMP, and therefore does not fully represent the risk management policies and practices which may exist, or may be applied by EDBs which are not currently reflected in their disclosed documents.
21. We note that the assessment framework applied by Partna is only one approach for considering the risk management practices within an EDB. The Commission has separately engaged AECOM, who are undertaking a review of risk management practices of the regulated Gas Pipeline Businesses under a different framework. This report will also be publicly released when available. We are open to feedback on other reviews or review approaches we could undertake in the future which stakeholders believe would be beneficial.
22. In addition, a number of EDBs are publishing information about their risk management practices which were not specifically covered by this review. A lack of direct reference to these sections within the Partna review should not be taken to imply that these disclosures may not be beneficial to interested persons.

Published responses to queries on asset management practices

23. We are currently undertaking a targeted review of the 2018 AMPs and 2019 AMP updates focusing on a selection of areas which have in some cases previously contributed to non-compliance with quality standards and/or significant levels of required catch-up expenditure.
24. The review is intended to assess whether EDBs' AMPs have appropriately considered a selection of potential issues which may exist on their network. In undertaking the review, we are making use of the AMPs and the Asset Management Maturity Assessment Tool as well as other ID data.
25. Where EDB AMP information does not sufficiently provide answers to questions we have, we intend to request additional information from EDBs to better understand their asset management approach in these areas. It is our intention that both the letter to EDBs requesting further information and their response would be published.
26. By requesting additional information from EDBs, we will not necessarily have concluded that there is a concern about the network or poor asset management practices exist. Instead, the focus will be on understanding how EDBs may be considering potential issues which may be arising, including why the issue may be not be a material concern for the EDB or how it is currently being effectively mitigated. We also intend to highlight examples where EDBs have provided a good explanation of their approach to addressing an area of focus.
27. Our current intention is to request additional information from EDBs in August.

28. We acknowledge that our proposed approach will require engagement with EDBs who are already involved in a number of regulatory consultations. However, we consider that the information we request should either be readily available or easily attainable as it is based on existing EDB plans.

We welcome your feedback

29. This letter has outlined our current programme of work in regards to considering asset management practices of EDBs, and what we are trying to achieve through reviewing those practices, which is both dissemination of good practice and identification of potential areas for improvement.
30. We are interested in how we continue to engage effectively with stakeholders in the area of asset management practices and welcome your feedback on how we could target our efforts to provide the greatest net benefit to consumers over time.
31. Any feedback on this letter or the “AMP review of EDB risk preparedness” report prepared by Partna should be provided to: Simon Wakefield, Manager – Performance Analysis, Regulation Branch, simon.wakefield@comcom.govt.nz

Yours sincerely



Simon Wakefield
Manager, Performance Analysis
Regulation Branch
Commerce Commission