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Commerce Commission
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Via email: infrastructure.regulation@comcom.govt.nz

Request for feedback – Expenditure forecasting by electricity distribution businesses and areas of focus for the 2025 default price-quality path reset

Introduction

The Lines Company Limited (TLC) thanks the Commerce Commission (Commission) for the opportunity to submit provide feedback *Expenditure forecasting by electricity distribution businesses and areas of focus for the 2025 default price-quality path reset*.

TLC's submission

TLC's response to the questions asked by the Commerce Commission is provided below.

Yours sincerely

Craig Hackett
Acting Network Manager

Q1 – How are EDBs obtaining confidence in establishing the requirements they are forecasting to meet, including but not limited to demand, resilience, and reliability?

TLC's response:

TLC undertakes a process with a Board sub-committee each year to set the objectives and deliverables of the ten year planning period covered by the AMP.

In setting the objectives, Management outlines:

- the key risks to the business,
- how these manifest into objectives,
- our key targets and
- the proposed initiatives to respond to the primary risks.

The objecives typically include safety and environment, customer and community, networks for today and tomorrow (i.e. decarbonisation and growth), asset stewardship (i.e. renewal and reliability) and operational excellence (i.e. continual improvement in people, processes and systems).

These objectives and deliverables guide our Capex and Opex forecasting, and the resulting financial forecasts are discussed and agreed with the Board sub committee as part of the AMP development process.

The information and targets used to inform our objectives come from many sources. These include safety risks, reliability performance and risk (SAIDI / SAIFI), fault cause analysis, our security of supply objectives, connection growth, industrial growth forecasts, asset condition, vegetation strategy (e.g. line diversion), as well as our assessment of how new technologies and improved processes can support the business (e.g. LiDAR, pole top inspection, ADMS and other digitual utility systems).

But we are continually adding to these inputs. For example we have built a line segment criticality model that will begin to implement in FY2024 which we expect will help us identify new areas of priority. We are also planning to expand our weather forecasting tool developed in partnership with NiWA to include long term weather intensity analysis, marcro impacts of carbon forestry and matching asset condition, criticality and weather intensity to give us a view of where assets are most at risk.

We utilise external consulting sources to assist with much of this planning, including load growth forecasting and options analysis, industrial decarbonisation forecasts, and MOT EV growth forecasts, as examples.

When we have established a baseline expenditure plan, sensitivity analysis is undertaken to consider whether increasing or decreasing the expenditure programme would result in better outcomes, particularly in relation to system reliability and value for money for our customers.

Q2 – Are there specific events or metrics that can be forecast and then observed that indicate that a step change in expenditure is required or an alternate scenario is playing out?

TLC's response:

Our forecast models reference MOT and Transpower scenarios with modificaions applied for our network. But our main expenditure drivers are currently still related to major customer growth and better understanding of our renewal needs.

We can and do experience step changes in our growth forecasts. There are four main drivers for material changes in our expenditure planning:

- Step changes in load growth resulting in major investment in substation capacity.

We are beginning to see significant industrial decarbonisation activity and general demand growth that will push some substations beyond their capacity limits. There is some uncertainty associated with these growth forecasts, and so we consider scenarios that may eventuate and mitigation options, including exploring load control or other flexibility options.

Because we are a small network with some very large customers, the out-turn differences in financial forecasts can be significant. Key drivers for significant changes in financial outcomes are typically driven by the undertainties in planning of major customers. For example major customers are currently planning to add ~20MW of load on our network (against a current total network load of ~80MW) over the next five years. This will significantly increase our GXP, line and substation investment, but these customer plans are not yet finalised.

We manage this uncertainty at an AMP financial forecasting level by setting our capex and opex forecasts to ensure we can support our customer's growth based on their best estimate at the time of planning.

- Step changes in renewal expenditure

We use renewal predictions based on asset condition and lifecycle analysis. This can indicate that lump sum renewal investments are required. We typically seek to flatten the future renewal expenditure where possible to provide a stable and deliverable work programme.

- Other Third party dependencies.

Financial forecasts can also be impacted by third party dependencies such as changes in planning from our major customers, our ability to confirm access to sensitive land, supplier delays and cost increases. Each of these can have a material forecast impact. To mitigate these we have been increasing our engagement with our major customers, our suppliers, our community and other key stakeholders.

Q3 – How are EDBs obtaining confidence that their proposed expenditure plan is the most effective and efficient solution for the forecast level of demand, resilience requirements, and reliability levels?

TLC's response:

Confidence that our expenditure is effective and efficient is informed by engineering design, options analysis and customer and market engagement. For example we are currently engaging with a major customer to consider load control options to defer a major substation upgrade using agreed load curtailment rules as a flexibility service to TLC.

For longer term projects, costs are informed by historic knowledge and high level project scope. Typically full design and costing for projects are undertaken within 24 months of the project commencing, and are retained at a high level scope and cost for projects planned for delivery outside this time frame.

For long term asset renewal, costs are informed by an asset renewal forecast that defines what assets need to be replaced, the approximate timing and our current view of replacement cost. These are formalised into more accurate project cost forecasts as they approach the investment year.

When projects approach the investment year, analysis is undertaken to reconfirm the business need and to review options – both network and non-network.

Overall TLC is seeking to utilise the latent capacity in its network by considering a wider range of options including smarter load management, non network options and greater market and customer can participation.

Q4 – How are EDBs getting confidence that their expenditure plans are deliverable, particularly if they involve a significant increase from historic levels?

TLC's response:

TLC made a step change in its renewal and growth capex forecasts in 2017 and we have continued to revine our expenditure planning over the last five years, including how we ensure confidence in our delivery. The core elements are:

- Buidling our internal and external engineering and delivery capacity.
- Increasing our stack of shovel ready projects (projects that are fully designed and ready to hand over for execution) ahead of the delivery year.
- Refining our time planning for our large capital / complex projects that require significant front end engineering design or have strong third party dependencies (projects with major customers or complex land owner access).
- Continuing to develop our portfolio of key contractors.