

21 December 2017

Robert Bernau  
Head of Energy, Airports and Dairy Regulation  
Regulation Branch  
Commerce Commission

*By email: regulation.branch@comcom.govt.nz*

Dear Rob

#### **RESPONSE TO THE COMMISSION'S OPEN LETTER ON PRIORITIES**

Thank you for the opportunity to provide feedback on your letter of 9 November 2017. We appreciate the Commission's openness in engaging with EDBs regarding opportunities and issues facing the sector and for providing an opportunity to input into the Commission's future work programme.

Given the critical and very public role our assets play in the energy sector, we agree with the Commission that maintaining public confidence is critical. We also agree that the onus is on us as EDBs to communicate with our consumers effectively, demonstrate we are managing assets prudently to ensure appropriate levels of service and public safety, and to set out the actions we are taking to support consumers' future energy requirements. As customer-focused organisations, such matters are central to our current and future service proposition and they are areas where we take our responsibilities extremely seriously.

In considering your open letter, we are encouraged by the Commission's focus on lifting its understanding of practices in the sector, formalising areas of particular interest via its work programme, and seeking to engage actively with industry participants to ensure the best possible outcomes for customers. We see a transparent and open discussion in these areas as an enabler of strong and informed regulation.

We have set out our high level thoughts on the key topics noted below, with more detailed commentary in the body of our letter:

- **Customer Engagement:** Customer expectations continue to evolve, and new technologies such as EV's, PV's, batteries and energy optimisation systems (among other things) have the potential to provide material benefits to consumers in the future, albeit the specific path and pace of change remains uncertain. Within this context, Northpower is focused on working more closely with our customers to understand and enable their emerging preferences, and on collaborating with others in the industry to deliver a consistent approach and messaging for our customers. We are encouraged by the level of cross sector collaboration emerging in this area and believe this is a useful way of moving forward 'in step', given the inherent uncertainties involved.
- **Asset Management:** We consider effective asset management is a key enabler of appropriate asset investment, and in ensuring appropriate condition and service of assets over time. We note that asset management benefits are also often amplified during periods of uncertainty, and periods of high capital requirements, by supporting appropriately targeted investment strategies. We therefore consider it positive to see an increasing level of discussion and collaboration regarding asset management good practice, and consider increased focus on this area to be appropriate given general trends of aging assets, increasing load volatility, and technology evolution.

- **Performance Monitoring:** The Commerce Commission's recent release of performance dashboards and industry comparison tools has been a useful way of highlighting the status of assets under the management of EDBs, and of signalling the Commission's interest in this area. We consider it to be a useful 'first order check' to highlight areas which may require specific asset management focus. We believe further industry work to standardise inputs into these tools would be a useful development, that done well, would help ensure customer confidence in the sector.
- **Other Issues:** We are supportive of industry discussion (supported by the Commission if needed) to achieve a consistent industry approach in the areas of vegetation management and customer service line management. In our view, optimising the approach taken in each of these areas will support safe network outcomes, and has the potential to deliver significant customer benefits over time.

We respond to specific areas of your open letter below:

### **Consumer Engagement (including service quality levels)**

Ensuring that we are delivering the network services customers seek, requires an enhanced understanding of customer behaviour and their changing demands. For all EDBs, the challenge is both the uncertainty around the pace of change (how quickly will new technologies be taken up) and what that change will ultimately look like; the differing customer segments (not everyone will engage with new technologies in the same way, or at all) and the differing service expectations. Getting to grips with these issues, and taking this into account in our asset management planning and forecasting, requires us to develop new methods of engaging with our customers and exploring their future requirements.

This is an increasing area of focus for us, as we consider how to engage meaningfully with customers on changes to network pricing, public safety issues (including the maintenance of service lines), and meeting customers' increasing demands for real time network information (e.g. outage information and restoration times). While historically Northpower has maintained strong satisfaction levels across our customer base, continuous improvement in customer engagement will be essential to ensuring that we continue to deliver the services that customers' value, as well as understanding different customer views on price/quality trade-offs. Our customers quite rightly expect our networks to enable their future energy choices, and for us to be transparent in the way in which we do this and we are working to lift our approach in this area.

As we consider our own approach, we are encouraged by the level of cross sector collaboration and discussion in this area, as participants work to understand how best to engage with customers, and provide simple and workable options. It is pleasing to see the work underway with ENA, ERANZ and others to foster collaboration in this area, and we support these efforts. We believe this will provide a good basis for enabling the industry to walk loosely 'in step' as we identify areas of particular customer interest.

### **Asset Management Focus**

The nature of the benefits to customers of strong asset management, and the process to enhancing asset management practice over time, is now generally accepted. Appropriate asset management helps ensure assets are managed in a way that ensures appropriate service and safety, which given the public nature of the assets we operate is a critical requirement. The benefits of asset management are also often amplified in periods of strong technological change, or very high capital requirement, by ensuring investments are appropriately targeted and future proofed. This is the nature of the environment in which our sector is currently operating.

We are encouraged by the increased level of discussion in our sector regarding appropriate asset management practice, including the Commission engaging with EDBs to understand the ways in which they are developing their management practices, and addressing the challenges from new technologies. We agree with the ENA in their submission that this is an evolving area, both in respect of aligning asset management practices with ISO55001 and considering and adopting new technologies into the network. It is positive to observe the level of collaboration and sharing of best practice within the NZ context, and with offshore operators.

Northpower's assets are in appropriate condition, however we are facing a period of increased renewal requirements, and increasing market complexity. On this basis we are focused on enhancing our asset management approach by formally aligning with ISO55001. The journey for us includes refining our asset

management practices, developing and implementing a modern asset management system and capturing and transitioning asset condition data to support enhanced analytics. As we develop these tools and analytical capability, views on asset condition and asset health may change.

In our view, new technologies will also play an important role in efficient asset management practices, whether these technologies are deployed as part of the network, by third party providers or on the demand side. We therefore consider it important that EDBs are not excluded from taking up these opportunities, particularly where their deployment may be in the best interests of consumers. As a 'fast follower' of technologies deployed in other, larger economies and markets, it seems likely that the best economic and technological solutions will ultimately reveal themselves, and we consider it appropriate to maintain a flexible approach, and open mind regarding the best long term option for consumers and markets.

### **Performance Monitoring and Tools**

The Commission's recent developments with the one page dashboards and the PAT tool are useful for high level comparisons, and are a good demonstration of the benefits of translating complex technical information into a form more easily understood and interpreted by customers and consumers. In general, we believe such techniques are useful, in that they better enable the industry to 'tell its story', and should ultimately help provide consumer confidence, which is an important outcome.

As with any representation of technical information however, there is a risk that these comparisons oversimplify the issues and may give a distorted view of "good" and "bad" performance. The ENA makes a number of observations in this regard, which we support. In addition, we also note some further observations covering other issues which complicate direct comparisons between EDBs:

- While age profiling of assets has an important role in benchmarking EDBs, the variety of approaches taken by EDBs to capture condition and underlying assumptions used where no condition data currently exists, places limitations on meaningful comparison between EDB performance.
- The way the current dials are modelled aggregates functionally diverse assets. This means the condition data at a high level can mask the condition of the most critical assets where they form a low proportion of an asset group and this can create a misleading picture of asset condition as it relates to criticality.
- Many EDBs use asset age as a proxy for asset condition (given the limitations of their current asset management system). However, age in itself does not accurately represent asset health. This suggests that for the time being, condition based information can be assumed to be indicative only.
- Grouping EDBs into peer groups for comparative purposes, as metrics may be influenced by factors unique to each EDB (for example, an EDB's capex spend as a percentage of its asset base will depend on where they are in their asset lifecycles and investment programmes).

It seems likely that through collaboration and discussion, the underlying shortcomings of comparative reporting could be addressed over time, and so we encourage the Commission to engage further with EDBs through the ENA to develop more accurate ways of measuring and modelling network asset health, particularly for those assets which do not lend themselves to traditional condition assessments.

### **Vegetation**

The Commission has indicated an interest in benchmarking opex spend. In our experience, care needs to be taken when benchmarking these costs between networks, as geographic and climatic differences mean vegetation may impact networks differently. In addition, networks may be at different stages of their vegetation management strategy, and therefore facing differing spend profiles.

For Northpower, managing the impact of vegetation around lines (both from a reliability and public safety perspective) has recently involved a material portion of our annual opex spend. This has been due to an extensive feeder clearance programme over the last six years, which we are now seeing the benefits of in terms of network reliability. While we hope to see a reduction in vegetation costs over the next few years as the feeder clearance programme is completed, the limitations inherent in the Tree Regulations may undermine this (e.g. new trees being planted and affecting the lines; tree owners issuing "no interest notices" once a second cut is required; and the difficulties in cost recovery for subsequent trims).

We endorse the ENA's comments that many EDBs take on greater costs than the Tree Regulations may strictly dictate, in order to protect network reliability and to reduce public safety risks – and this certainly reflects our experience. The Commission could help us with making the case to policy makers of why a reform of the Tree Regulations is essential to delivering improvements to service reliability and reducing the overall cost to consumers.

### **Service Quality and Safety**

We strongly support the ENA's comments regarding customer service lines and the increasing risk that aging private infrastructure poses to the wider public, as well as its impacts on service delivery. We consider it critical that the broader industry (including regulators and policy makers) work together to find a solution to this emerging problem.

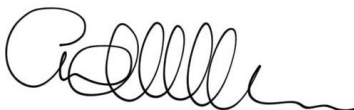
While EDBs generally do not own these assets, given our existing knowledge and expertise in managing electricity infrastructure, we have an important role to play in helping consumers manage this risk; but it requires cross party involvement and a supportive regulatory framework to be really effective.

### **Ongoing Engagement**

We found the Commission's recent visit to Northpower useful in terms of understanding the Commission's priorities and as a direct means of sharing with you our key areas of focus. In terms of future engagement, as well as continuing ongoing dialogue with EDBs, and public consultation processes (such as the current open letter from the Commission) we also encourage the Commission to continue to work closely with the ENA, including participating in or taking an observer role for relevant working groups.

Once again, thank you for the open and collaborative process the Commission is taking regarding priority setting. We look forward to continuing to work with the Commission in 2018 and beyond, on the issues discussed above.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Andrew McLeod', with a stylized, cursive script.

Andrew McLeod  
**CHIEF EXECUTIVE**