

22 December 2017

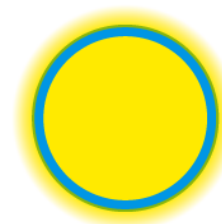
Powerco Limited

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

CORPORATE OFFICE
84 Liardet Street
Private Bag 2061
New Plymouth
T 0800 769 372
F +64 6 758 6818
www.powerco.co.nz

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

POWERCO



Dear Robert

Priorities for the electricity distribution sector for 2017/18 and beyond

Powerco welcomes the opportunity to comment on the Commerce Commission's priorities in the electricity distribution sector, as described in the open letter issued on 9 November 2017.

General comments

The objective of the Commission's priorities is to encourage improved electricity distribution sector performance. To achieve this objective the Commission has established the following priorities:

- improving understanding about electricity distributor's performance;
- making information about electricity distributor's more accessible to a wider audience; and
- an increasingly efficient and effective process for assessing price-quality path proposals.

Powerco supports these and the proposed focus areas of work. We have a number of recommendations that we believe can enhance the effectiveness of the Commission's initiatives. Our submission focuses on these recommendations.

Priority 1: Greater understanding about the performance of infrastructure industries

Powerco supports the Commission's intention to improve the understanding of electricity distributor performance and to share this knowledge with stakeholders. The Commission has identified that a key issue for the sector is the ability of Electricity Distribution Businesses (EDBs) to manage their assets effectively, to maintain resilience, and to do both of these in a changing environment.¹ The Commission also considers that a focus on better understanding the risks associated with over- and under-investment, and the impacts on service quality, will provide the greatest benefit to consumers over the long term.² In light of these views the Commission will focus on asset management practice.

Powerco agrees that the issues the Commission has identified are well founded and that a focus on asset management is practical and prudent given the changing environment distributors operate in.

¹ Commerce Commission, Open letter on "Our priorities for the electricity distribution sector for 2017/18 and beyond", 9 November 2017, para 11.

² Ibid. para 9.

We have identified several opportunities that will assist with the Commission's approach to understanding EDB performance:

- **Understand impact of network composition on generic measures.** As the Commission has noted, the nature of networks and their operating environments differ from one EDB to the next.³ Although asset management methodologies or processes can be similar across EDBs, efficiency and performance comparisons made with generic metrics can mislead.

Variables such as size, density, geography, location and asset type can influence an EDB's performance. For example, SAIDI and SAIFI results differ significantly across EDBs due to the different composition of networks (think underground cables vs overhead lines, customer density, urban vs rural).

Given the number of variables that can influence performance, we recommend the Commission seeks to understand the unique characteristics of each EDB before drawing conclusions about performance. This will increase their robustness and should increase the confidence in them by the wider audience of stakeholders that the Commission is targeting. It would also be prudent to assess the accessibility and availability of demand and consumption data used for planning decisions (which in turn can affect network performance).

- **Utilise existing disclosures.** The pursuit of a greater understanding of asset management should leverage off EDBs existing Asset Management Plans (AMP) and Information Disclosures (ID). Maximising the value of this existing information will avoid duplication of effort and minimise additional information gathering costs.

AMPs are an excellent source of information and we anticipate that the Commission may be able to find the information it requires within them. We recommend the Commission undertakes a gap analysis of EDBs AMPs to identify any missing information.

- **Keep DPP and CPP distinct.** We expect there may be a temptation for the Commission to bring aspects CPP processes into the DPP framework that it found useful. We urge the Commission to be mindful when considering any add-ons from CPP to DPP that these changes are not pursued to the detriment of the low cost DPP framework.

Priority 2: Making information about infrastructure industries accessible to a wider audience

Powerco supports the Commission's priority to increase the accessibility of information about the performance of electricity distribution businesses. We agree that enhanced access to information and increased awareness of relative performance will help improve asset management practices and incentivise performance improvement.

We consider the key issue for this priority is identifying relevant and useful information. In light of this, we make the following recommendations:

- **Develop meaningful measures.** We encourage the Commission to work with the industry and consumers to develop agreed and meaningful measures of network performance. These will be effective if they have a question or issue that they intend to inform. The Commission's one-page performance summaries and Performance Accessibility Tool are great platforms to leverage. The next step is to engage with stakeholders about the questions they have. EDBs can help the Commission with which

³ Ibid. para 15.

performance metrics (existing or new) can address those questions. We look forward to working with the Commission on this.

Powerco recommends that the Commission engage with stakeholders to get clarity about some initial focus areas for information (PAT) to target.

- **Explain interpretations.** It is important to us that the Commission articulates the insight it desires to gain from each performance metric. This could take the form of an explanatory document that clarifies the Commission's interpretations and conclusions. We expect stakeholders will provide constructive feedback on the Commission's interpretations and conclusions.
- **Provide context for metrics.** To make the performance metrics meaningful for new audiences, we recommend the Commission provide some context regarding EDB functions, obligations, and scope of activities. This information could be published alongside the explanatory documents we have recommended above, and include details on matters such as electricity industry structure, price-quality regulation, distribution and retail pricing, and asset management and information disclosure reporting.
- **Facilitate consistency of information disclosure requirements.** Powerco also recommends that the Commission continue to work with EDBs on clarifying the intent and definition of the Information Disclosure requirements where there are known ambiguities and inconsistencies in application eg elements of the non-financial ID schedules. Improving consistency will support better comparison across EDBs and increase the value and usefulness of the information.

Priority 3: An increasingly efficient and effective process for assessing price-quality path proposals by regulated suppliers

Powerco supports the Commission's priority to improve confidence in the CPP process for future CPP applicants. Powerco expects to provide its feedback on the CPP process as part of the Commission's 'lessons learned' review. The possible focus areas relating to the 2020 Electricity DPP reset are significant. Powerco will consider these suggestions and other possible focus areas and share our thoughts on these matters once the formal DPP reset process begins.

Thank you for the opportunity to provide comments on the open letter. If you wish to discuss any of the points made, or clarify any matters, please contact Nathan Hill tel. (06) 759 8582, email Nathan.Hill@powerco.co.nz

Yours sincerely



Richard Fletcher
General Manager Commercial and Regulatory