

26 October 2021

Mr Greg Skelton
Chief Executive Officer
Wellington Electricity Lines Limited
85 The Esplanade
Petone
Lower Hutt 5012

By email only: [REDACTED]

Cc: [REDACTED]

Dear Mr Skelton

Wellington Electricity Lines Limited: compliance advice for contravention of the DPP quality standard in the 2018 assessment period

1. The Commerce Commission (**Commission**) has investigated Wellington Electricity Lines Limited (**Wellington Electricity**) for its contravention of the quality standard under the Electricity Distribution Services Default Price-Quality Path Determination 2015 (**DPP2**) in the assessment period ending 31 March 2018 (**AP2018**). We have now completed our investigation and are writing to provide you with compliance advice.
2. In summary, Wellington Electricity contravened the quality standard for AP2018, having exceeded the 'system average interruption duration index' (**SAIDI**) and 'system average interruption frequency index' (**SAIFI**) in the assessment period ending 31 March 2017 (**AP2017**) and AP2018. Having considered the information available, the Commission considers that compliance advice is the appropriate response.

Quality standards under DPP2

3. Wellington Electricity is subject to a default price-quality path which sets quality standards to which it must adhere. Under DPP2, which ended on 31 March 2020, the quality standards were contravened where an Electricity Distribution Business (**EDB**) exceeded either its SAIDI or SAIFI reliability limit in two out of three years.
4. Wellington Electricity reported exceeding its SAIDI and SAIFI reliability limits in AP2017 and AP2018:

Assessment Year	Measure	Limit (minutes)	Assessed value (minutes)	Exceedance (minutes)	% over Limit (normalised)
2017	SAIDI	40.630	49.732	9.102	22.40%
2017	SAIFI	0.625	0.711	0.086	13.76%
2018	SAIDI	40.630	52.856	12.226	30.09%
2018	SAIFI	0.625	0.676	0.051	8.16%

The investigation

5. The investigation considered Wellington Electricity’s publicly disclosed documents, Wellington Electricity’s response to the Commission’s requests for information (**RFIs**) and other information provided by Wellington Electricity, Nuttall Consulting’s (**Nuttall’s**) quality non-compliance report (**the Expert Opinion**), a weather report prepared by Metris Limited (**Metris report**), and Wellington Electricity’s compliance history with the quality standards.

Information provided by Wellington Electricity

6. Wellington Electricity provided information in writing in response to three RFIs, and a response on the broader matters relevant to our enforcement in the Expert Opinion.
7. In summary, Wellington Electricity’s main explanation for exceeding its SAIDI and SAIFI limits in AP2017 was the impact of abnormally high wind speeds on the overhead network. The main explanation for exceeding its SAIDI and SAIFI limits in AP2018 was increased outages due to earthquake-related cable damage, car vs poles incidents, and the impact of the Health and Safety at Work Act 2015 Act (**HSW**) on live line work.
8. Wellington Electricity states that the differing causes between AP2017 and AP2018 shows that the contravention of quality standards is not indicative of a trend of deteriorating performance.

The Expert Opinion

9. The Commission engaged Nuttall to provide an expert opinion on Wellington Electricity’s failure to comply with the annual reliability assessments for AP2017 and AP2018, covering:
- 9.1 whether Wellington Electricity had acted in accordance with good industry practice (**GIP**) with regard to reliability performance, and to the extent it did not, how this contributed to the non-compliance;
- 9.2 the extent to which Wellington Electricity has undertaken actions to understand, prevent or mitigate further failures to comply with the annual reliability assessments in the future;
- 9.3 the extent that weather contributed to the non-compliance; and

- 9.4 an opinion on the reasons given by Wellington Electricity for its failure to comply.
10. Overall, Nuttall found that Wellington Electricity's practices and actions could largely be considered consistent with GIP, although there were certain actions that Nuttall considered were too reactive, because of some systemic deficiencies in its management practices, and not in accordance with GIP.
 11. Nuttall largely agreed with Wellington Electricity's analysis of the primary contributing causes for the contraventions, being unusually high winds and the Kaikoura earthquakes in AP2017, and underground cable failures and an unusually high number of car vs pole incidents in AP2018.
 12. In Nuttall's opinion, the non-compliance was partly beyond Wellington Electricity's reasonable control – given the unusual events in AP2017 and AP2018 – but the extent to which Wellington Electricity exceeded the limits was exacerbated by certain actions that Nuttall considers were not in accordance with GIP.
 13. However, Nuttall found that Wellington Electricity had a very strong attitude to finding the causes of the exceedances and putting in place controls to improve reliability performance.

The Commission's view

14. From the information gathered during the investigation, and considering the findings in Nuttall's Expert Opinion, our view is that Wellington Electricity's contraventions were not caused by failures to meet GIP, but that the exceedances were exacerbated to some extent by actions not considered to be GIP.
15. We consider that the findings of the Nuttall report do not indicate any serious concerns with Wellington Electricity's wider management of the network, or of its asset management practices in general.
16. Where Nuttall has identified that Wellington Electricity failed to meet GIP, Nuttall considered that Wellington Electricity would have still exceeded the SAIDI limit in both years, and the SAIFI limit in AP2017 despite these deficiencies, due to the unusual circumstances affecting those years (including the major earthquake and the high number of failures in underground cables likely related to the ground shake).
17. Wellington Electricity has engaged in a constructive and cooperative manner throughout this investigation, including providing large amounts of documentation, and participating in a teleconference with our external engineer.
18. However, the Expert Opinion identified some systemic deficiencies where Wellington Electricity could have improved its performance to meet GIP. Because these factors exacerbated the contravention to some extent, we note the potential improvements here for compliance advice, as follows:
 - 18.1 Wellington Electricity should improve its quantitative analysis of reliability performance to better identify in a more timely manner worsening trends,

emerging issues and the causes of poor reliability. This would allow it to better predict the risk of future non-compliance;

- 18.2 Wellington Electricity should develop and document a strategic reliability management plan which would describe its processes for investigating risks and developing controls;
 - 18.3 reports to the Board and management have focused on past and year-to-date performances. These should also include a forward-looking analysis of the likelihood and severity of risk, and the likelihood of breaches occurring as a result of current performance outcomes and events;
 - 18.4 it should encourage active challenge at the various management levels; and
 - 18.5 development of a sense of urgency in reporting the risk of non-compliance with quality standards may enable Wellington Electricity to change the outcome during an assessment period.
19. We acknowledge that Wellington Electricity has not contravened in the subsequent 2019, 2020 and 2021 assessment periods.

Penalties for contravening the quality standards

- 20. Where a non-exempt EDB has contravened the quality standards in a Price-Quality Path, section 87 of the Commerce Act 1986 allows the court to impose a pecuniary penalty of up to \$5,000,000. If the court imposes a penalty, then the Commission or affected persons may apply to the Court for compensation under section 87A in respect of the loss or damage resulting from the contravention.

Further information

- 21. We recommend that Wellington Electricity regularly reviews its compliance procedures and policies. While we will not be taking enforcement action against Wellington Electricity in respect of this contravention, our decision to issue compliance advice in this instance does not prevent us from taking higher-level enforcement action in respect of any contraventions in the future. This contravention may be taken into account by the Commission when considering any future contraventions by Wellington Electricity.
- 22. This letter is public information and will be published on our website. We may make public comment about our investigations and conclusions, including issuing a media release or making comment to media.

23. Thank you for your assistance with this investigation. Please contact Robert Cahn, Acting Head of Compliance and Investigations, on [REDACTED] or by email at [REDACTED] if you have any questions about this matter.

Yours sincerely

A black rectangular redaction box covering the signature of Sue Begg.

Sue Begg
Deputy Chair