



COMMERCE COMMISSION

20 October 2011

Compliance Review of Electricity Distribution Businesses' Asset Management Plans for the period beginning 1 April 2011

The Commerce Commission requires that electricity distribution businesses (EDBs) each year publicly disclose an asset management plan (AMP) that provides information on how the business intends to manage its network assets to meet the requirements of its consumers.

PB New Zealand Limited (PB) has prepared for the Commission a compliance review (PB Report)¹ of the 28 electricity distribution business AMPs covering the period 1 April 2011 to 31 March 2021.² The PB Report can be found on the Commission's website at:

<http://www.comcom.govt.nz/review-of-asset-management-plans/>.

The findings of the PB Report are discussed below.

Asset Management Plans

One of the key determinants of the long term benefit received by the consumer of an EDB's services is the way that the EDB manages its assets. The Commission has a responsibility, under the Commerce Act, to promote the long term benefit of the consumers of EDB services.

An EDB's asset management plan is a ten-year plan that sets out how the EDB intends to manage its assets. That includes how it will meet its service and performance targets, the considerations behind its investment and operating decisions, and the way that it intends to manage risk. The plan also contains details of network assets, planned network developments, future maintenance needs and forecast expenditures. As well as being used by the EDB itself, the plan is used by consumers and consumer organisations, electricity trusts, retailers, consultancies, investment analysts and investors, policy makers, the Commission and other interested persons who wish to understand how well an EDB is managing its assets and responding to consumer needs, and what projects to improve services are planned.

¹ *2011 Asset Management Plan Reviews*, PB New Zealand Limited, 26 August 2011

² Following the 22 February 2011 earthquake, the Commerce Commission has exempted Orion New Zealand Limited from the requirement to disclose a 2011–2021 AMP unless required to do so at a later date.

The disclosure requirements for an AMP are set out in the *Electricity Distribution (Information Disclosure) Requirements 2008* (Requirements) and the current version of the *Electricity Information Disclosure Handbook 2004* (Handbook). Commentary included in the Handbook provides guidance on the expected content of the disclosed AMPs.

The extent to which an EDB complies with the disclosure requirements and commentary is a proxy for the quality of management of the EDB's assets. Feedback that the EDB receives from the compliance reviews enable it to continuously improve its plans and, by doing so, improve its management processes. The term 'compliance' is used here in a broad sense, to reflect the extent to which an AMP is consistent with the provisions of the Requirements and the Handbook. It should be noted that the compliance assessment is not an explicit evaluation of an EDB's asset management practices or the extent to which these practices meet customer requirements.

Compliance Review

The last AMP compliance review was undertaken in 2009³ and concluded that although compliance was generally good, it was relatively weak in three particular areas. For that reason, this year's compliance review has targeted on these three areas, which are:

- service levels;
- network development planning; and
- expenditure forecasts, reconciliations and assumptions.

For EDBs to tell whether they have improved, pre-existing evaluation criteria continue to be used where possible. A set of evaluation criteria was developed in 2007 and was updated in 2009 to capture the intent of the individual clauses and descriptions contained in the Requirements and the Handbook. This year's review uses the same criteria, for the three targeted areas, that were used in the 2009 review. As a consequence, the assessment results can be directly compared between the two years.

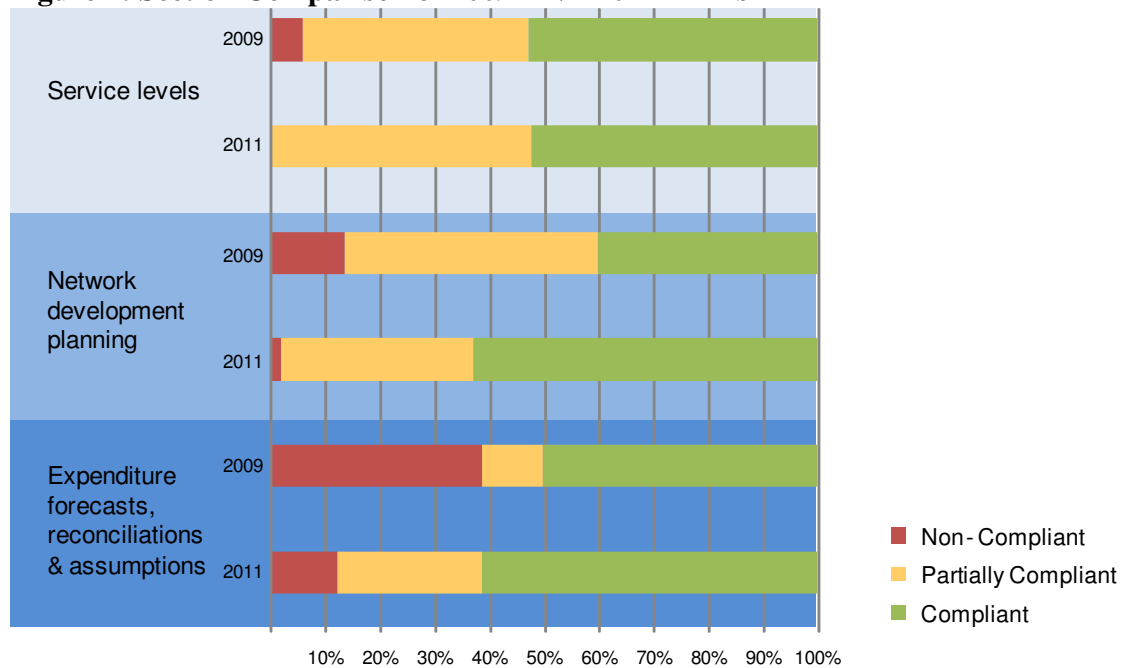
The Commission has considered the PB Report and agrees with its findings.

Findings of the AMP Review

In general, compliance has continued to improve since the 2009 review, particularly in respect of two of the three assessed areas: network development planning; and expenditure forecasts, reconciliations and assumptions. Figure 1 shows that there has been a clear increase in compliance (shaded green in the charts) and a decrease in non-compliance (shaded red). The third category (shaded yellow) is partial compliance, composed of assessments that have a relatively minor degree of non-compliance through to some that have only a relatively minor degree of compliance.

³ *Compliance Review of Electricity Distribution Business Asset Management Plans for the period beginning 1 April 2009*, Strata Energy Consulting Limited, October 2009.

Figure 1: Section Comparison of 2009 AND 2011 AMPs

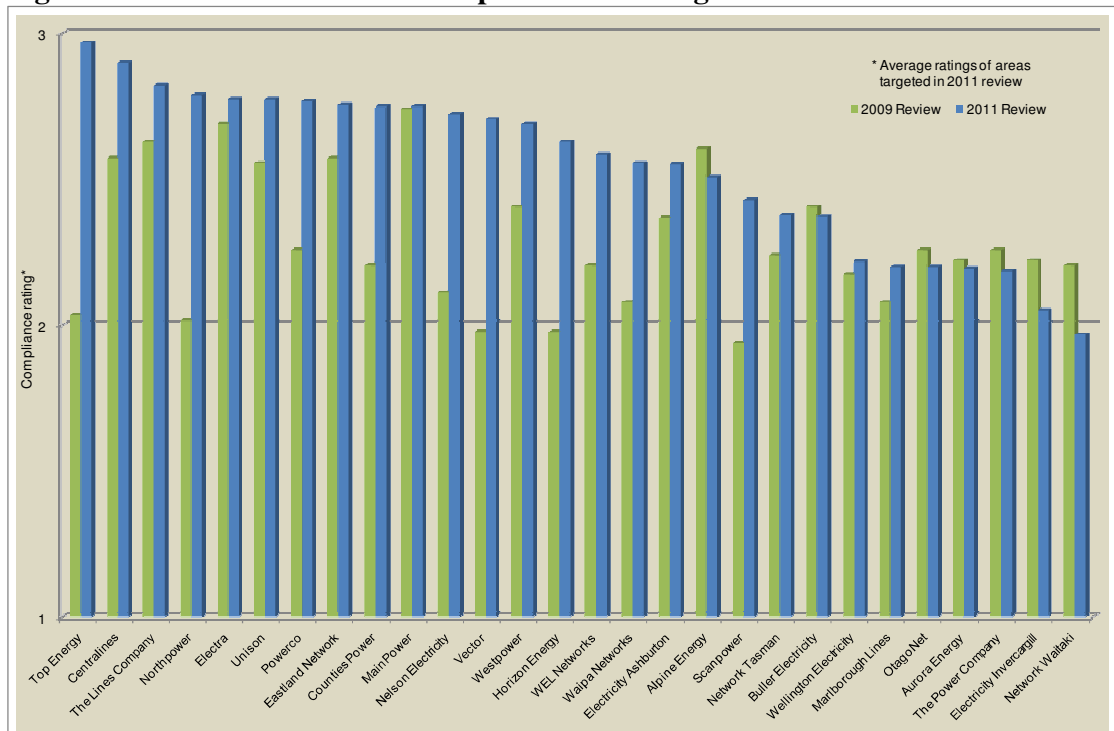


There were a number of individual performances of note:

- The most compliant were Top Energy, Centralines and The Lines Company;
- The suppliers that made the most significant gains from the 2009 review were Top Energy, Northpower and Vector.

Figure 2 compares the average compliance rating with 2009 for the three sections of the AMPs assessed in this review. Most EDBs have responded to feedback from the 2009 review and have modified their plans to rectify previous areas of non compliance or partial compliance. Of the 28 businesses whose asset management plans were reviewed, 21 showed an improved disclosure rating and ten EDBs exceeded the highest average rating achieved in 2009.

Figure 2: 2009 and 2011 AMP Comparison of Ratings



This year’s review identified Network Waitaki, Electricity Invercargill, and The Power Company to be the least compliant.

Points to note where compliance was, in general, not as good as expected are:

- Justification for targets. Only 7 EDBs received a ‘compliant’ rating for this criterion. To help the reader assess whether the EDB’s services will continue to be delivered at a quality that reflects consumer demands, it is important that EDBs understand and explain why the target performance measures are set as they are.
- Consideration of network development planning options and target levels of service. Compliance was relatively low for these three related compliance criteria as distinguished by PB:
 - disclosure of the options for significant network level developments. Only 8 EDBs received a ‘compliant’ rating for this criterion.
 - disclosure of the reasons for choosing the selected option (for projects that are listed in the network development plan and for which decisions have been made). Only 10 EDBs received a ‘compliant’ rating for this criterion.
 - discussion of the alternative options for the projects in the network development plan that are planned to start in the next 5 years but for which decisions have not yet been made. Only 7 EDBs received a ‘compliant’ rating for this criterion.

PB also concluded that the presentation and format of the information does not always facilitate stakeholder understanding.

Future Developments

On 1 April 2009, Part 4 of the Act was repealed and a new Part 4 was substituted. Although the new Part 4 amended the information disclosure provisions, it supports a continued requirement for the public disclosure of asset management plans. The Commission considers that disclosure of these plans will remain important. An information disclosure determination for EDBs is expected to be published in draft in December 2011 and finalised in April 2012. This will be the first information disclosure determination for EDBs to be published under the revised act and, as such, will specify how the new information disclosure requirements apply to EDBs.

At a gas pipelines and electricity distribution industry briefing on 7 October, the Commission described its emerging views on information disclosure requirements and identified areas where it considered more work is needed to ensure sufficient information is disclosed. These areas largely included asset management and would involve a shift of focus from assessing AMP compliance to evaluating the disclosed asset management information.

The information currently required in an asset management plan is not always sufficient to fully reveal the extent to which the business is able to implement the plan successfully. In addition to carrying out this year's compliance review, PB has developed for the Commission a proposed approach to assessing the maturity of asset management capability and practices within EDBs. A draft of this approach was presented at a Commission workshop held in June this year. Under the proposal, the results of a self-assessment questionnaire on the EDB's asset management practices would be included in future AMPs.

Much of the information in an asset management plan is currently presented in the form of a narrative. This makes it difficult for users of the asset management information to compare between companies and over time. The Commission expects a greater part of the AMP information to be disclosed in a more standardised numeric form along with other asset management information. A technical reference group comprising industry participants has been formed and will contribute to the development of these revised requirements.

Submissions on the revised draft requirements will be invited following publication of the December draft of the EDB information disclosure determination.