

SUBMISSION OF



TO THE COMMERCE COMMISSION

ON THE INFORMATION DISCLOSURE:

APPROACHES FOR UNDERSTANDING EDB AND GPB

COST EFFICIENCY

11 NOVEMBER 2011

1. INTRODUCTION

- 1.1 The Commerce Commission (Commission) has invited interested persons to give their views on the Commission's 7 October 2011 paper "Information Disclosure: Approaches for Understanding EDB and GPB Efficiency" as part of the review of the Information Disclosure (ID) requirements for the 31 March 2012 year onwards.
- 1.2 This paper represents some of the views of PowerNet Limited (PowerNet) with respect to the preliminary thinking of the Commission through the process to date.
- 1.3 The general approach of this paper is to raise issues we are aware of with the proposals of the Commission. We have not gone as far as providing solutions as we prefer to rely on the Electricity Networks Association and PricewaterhouseCoopers submission for this input.
- 1.4 We would be pleased to answer queries or discuss our submission further with the Commission if required and have appreciated the opportunity to be involved in the ID technical group workshops held by the Commission.

2. BACKGROUND

- 2.1 PowerNet is a network management company, with a head office in Invercargill. PowerNet was established in 1994 as an incorporated joint venture to manage the electricity assets of its owners Electricity Invercargill Limited (EIL) and The Power Company Limited (TPCL).
- 2.2 The networks currently under PowerNet's management include some of the least and most dense in the New Zealand and include OtagoNet Joint Venture, (OJV), EIL, TPCL and Stewart Island Electrical Supply Authority (SIESA) and .have a value in excess of \$400 million and convey 1,350GWh through 13,500 km of lines and cables to 66,000 consumers.
- 2.3 We have experience in managing, monitoring and evaluating the performances of regulated EDB's (non-exempt and exempt) and an unregulated business, all with a wide variety of business drivers.

3. OTHER SUBMISSIONS

- 3.1 PowerNet through its owners EIL and TPCL and management of OJV have indirectly participated in other submissions by the Electricity Networks Association (ENA) and PricewaterhouseCoopers (PwC). Our comments may vary to those provided in these submissions however we support those submissions in principle.

4. THE COMMISSIONS ROLE WITH INFORMATION DISCLOSURE

- 4.1 The Commission role as laid out in Section 53B(2) of the Commerce Act (the Act) is to summarise, analyse and publish the ID data to promote a greater understanding of the relative performances of businesses and changes in performance over time.
- 4.2 PowerNet is concerned that the approach indicated by the Commission in the discussion paper and through the ID technical workshops appears to have taken a narrow interpretation with respect to the Purpose Statement (Section 52A(1) of the Act – being the incentive to improve efficiency without considering other parts of the purpose statement.
- 4.3 PowerNet is of the view that there is a great deal of data in the existing ID templates that can be utilised by the Commission to meet its obligation with respect to ID under the Act. At the same time there is the need for refinements but they should be minor in nature so that the historic data gathered over recent years will continue to be useful.
- 4.4 The workshops appear to be taking ID to a more and more detailed level to provide benchmarking comparisons focusing on improving efficiency performance. As the manager of three distinctly varied EDB's PowerNet is concerned that a great deal of cost will be expended on an exercise that is extremely difficult to achieve.

5. A MYRIAD OF DRIVERS

- 5.1 The characteristics (and drivers) of EDB's in New Zealand are extremely varied and subsequent results will vary greatly. The Commission is embarking on a noble path that in PowerNet's view is impossible to achieve by pure analysis of the numbers without putting the results in context of a story or reason for a performance outlier.
- 5.2 A myriad of different drivers exist for EDB's in New Zealand and probably more so than any other regulated country due to our diverse geography, weather, ownership and asset types alone. Cost, performance and pricing differences will exist due to EDB's being in sounds, valleys, plains, rural areas, urban areas, CBD areas, on the West or East coasts, coastal and inland regions, hot and cold climates, vegetation types and growth rates, overhead or underground lines, radial or spider networks, customer types, commercial arrangements and the list goes on.
- 5.3 PowerNet's view is that it is simply not possible to benchmark and perform a credible relative efficiency analysis with such a vast number of drivers that exist in New Zealand. PowerNet has developed this view by having the experience of managing multiple and diverse networks.
- 5.4 Put simply the different commercial arrangements, ownership type, urban rural differences, radial and spider networks, position of depots, overhead and underground networks make it impossible to compare our three regulated EDB's without putting the results in the context of the differences mentioned above.

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- 5.5 PowerNet believes that it would be beneficial for the Commission to gain a better understanding of the drivers and ways in which the EDB's manage their businesses by visiting the EDB's. PowerNet would be pleased to host such a visit.

6. LEARN FROM PAST EXPERIENCES

- 6.1 PowerNet is concerned where the possible benchmarking work being undertaken by the Commission is heading. Previous efficiency benchmarking analysis work carried out by Denis Lawrence through Meyrick has proven itself to be fraught with inconsistencies with a change in assumptions from one regulatory period to the next resulting in EIL tumbling from its number one "hero" status to a bottom of the pile "zero" status.
- 6.2 The Commission may recall in the late 1990's and 2000's a benchmarking exercise carried out by Ernst & Young that ranked EDB's on a number of criteria. Fundamentally the exercise was flawed as it failed to recognise EDB's differences – one in particular being the return on investment when Trust and investor ownership models existed.
- 6.3 The Ernst & Young analysis did however have one benefit in that it was published and it ranked the EDB's. EDB's were aware of their relative ranking and generally tried to make improvements to improve their placement from year to year.
- 6.4 Another example of the improvements that can be made through an assessment and ranking exercise is the Asset Management Plans.
- 6.5 PowerNet's view is that the Commission should not underestimate the benefit that can be gained by publishing a simple ranking amongst the industry and / or the public with anecdotal comments or observations made as to reasons for differences. Perhaps the anecdotal comments could be consulted upon or agreed with the EDB concerned before being publishing.

7. THE EXISTING DATA IS VALUABLE – USE IT WITH MINOR CHANGES

- 7.1 The existing ID templates that have been in use since 2008 and contain vast amounts of data from which significant analysis can be performed. PowerNet is concerned that current Commission works streams are focused on gathering further waves of data at significant cost when little analysis has been forthcoming from the Commission from the existing data.
- 7.2 PowerNet believes that minor changes to the ID templates would not be too onerous or costly to implement and that there will be benefits in making changes, however significant changes with large volumes of data would be onerous and of little benefit.
- 7.3 One area in particular that will provide useful information is vegetation expenditure. It will immediately draw out differences in expenditure between overhead and underground networks such as EIL and TPCL. It would also provide EDB's with industry information that would allow them to assess if the spend is appropriate (efficient?). i.e. are they spending too little or too much on vegetation control.

8. INFORMATION DISCLOSURE IN THE NEW ZEALAND REGULATORY CONTEXT

- 8.1 PowerNet is of the view that New Zealand regulatory regime is substantially different from other regimes and that the Commission should carefully approach its task in the context of the New Zealand regime. We do not operate under the same regimes as Australia or the United Kingdom and should not be treated in the same manner.
- 8.2 PowerNet understands that EDB operating costs amount to approximately \$300 million per year. Our concern based on the overall efficiency New Zealand Inc. is that the Commission will try to seek efficiency gains from these operating costs that will be far outweighed by adverse quality (SAIDI and SAIFI) and the overall cost to New Zealand Inc. The Transpower D shackle and Maui Pipeline failures are recent examples.
- 8.3 Any movement in operating costs may need to be put in the context of a change in CPI within New Zealand. A 1% movement in CPI would effectively wipe out a 10% movement in operating costs.
- 8.4 The Commission should not underestimate the role that Trust or Co-operative owners play in the monitoring and evaluation of unregulated EDB's. A simple high level analysis and commentary by the Commission would be valuable to these owners without the need for the Commission determining areas for efficiency improvements without the required level of knowledge of the EDB's.
- 8.5 The Commission needs to consider the size of the EDB's that operate in New Zealand. A number of EDB's rely on local knowledge and not high level systems to manage their businesses and the cost of collecting large amounts of data relative to the number of customers may in itself be inefficient.

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We would be pleased to answer queries or discuss our submission further with the Commission if required.