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Dear Anna

Re: Submission: Information Disclosure: Approaches for Understanding EDB and GPB Cost Efficiency: Technical Paper for Consultation

Thank you for the opportunity to be part of the industry reference group.

I support the recent working group outcomes and points raised on the technical consultation paper with respect to:

- Defining more clearly the definition of capital and maintenance expenditure as outlined in the 2008 Electricity Distribution (Information Disclosure) Requirements.
- Modifying these definitions to allow the production hierarchical structure of cost reporting with respect to overall network activities down to a lower level of asset information.
- Providing information at an achievable level.
- Commenting that modifying systems takes time and often reaches deep within an organisation (it is accepted that change as part of ongoing development/continuous improvement is fundamental to business processes).
- Emphasising that both the industry and Commission **have** a responsibility to explain any intercompany comparisons in a way that allows correct assumptions to be made. It needs to be recognised that in the short term a rural network company can pull things such as vegetation maintenance for a large short term cost reduction. Such a move would typically be possible for a maximum period of five years; after which reliability, hazard control, quality etc. would be seriously compromised as trees grow back into the lines. Stopping activities

such as oil sampling, engineering training and other items that are providing a long term sustainable network would have a similar effect.

- More consistent rules are needed for counting reliability. E.g. available information suggests that low voltage and single phase events are typically treated differently by different organisations. This makes comparisons and DPP disclosure inconsistent.
- The present asset management “marking” system is passed its useful date. It has been helpful in getting the plans to a good level however now that this has been achieved this need no longer exists. Over time the markers have interpreted compliance slightly differently and as a consequence this is now causing confusion and frustration among technical staff. Further this “splitting of hairs” approach is distracting engineering attention from innovation into ensuring every little detail in the compliance boxes are ticked. The marking process is also being interpreted by many technical staff as being treated as “little school boys” or “muppets” and this perception is leading to a growing negative view. This is not in the best interest of any party and will not deliver value for customers or tax payers.

Another cost that this process has added to the industry is the practice for some organisations to hire in consultants to “word smith” for compliance. Whilst this process will improve compliance it will not likely add many “on the ground benefits” associated with ensuring a well used working document.

Now that a good standard has been reached focus needs to be on the effectiveness of plans as per the objective of this groups work stream.

- The concept of a bi-annual rewrite of AMPs as opposed to an annual one is supported. This will allow more engineering time for innovation that will likely have a benefit of effectively reducing costs in the long term.
- The structure of the present plans is understood and accepted. PAS 55 is more of a complete system and aligning the present criteria to this is less than straightforward. No change is recommended, however some focus should come off the areas that add little value but have become quite significant due mostly to the by product effects of the “marking” process. An example of this has been the need to focus on “non asset solutions” when the only practical option in many cases is to increase the network resilience/capacity.
- The costs categories need to consider companies that direct bill and have operations such as customer answering services. These costs should be deducted from revenue directly and not included in the cost comparisons to negate the services that are provided by some retailers. (There are other issues such as the effects of revenue uplifts from prompt payment discounts that factor into this which can offset billing costs etc. It is a complex area that needs to be isolated from other costs. The simplest way to do this is place it in the revenue area so that comparisons between direct and retailer billing is outside of the cost data being compared.) If they were included this would “muddy” the comparisons between companies.

- Environmental factors are included in the requirements placed on the Commerce Commission by legislation. There has been little focus on this long term sustainability issue to date. Information on load factors and losses are disclosed at present. Further a huge amount of more detailed information is available from The Electricity Authorities national data set on active and reactive power follows at grid exit points. The following indices are put forward for consideration to monitor over time as a starting point for the environmental effects. These are:
 - Load factors at network and regional levels.
 - Network losses. Initially the best overall combined losses but due to the quality of metering data overtime this should be broken into technical and non-technical. To calculate technical network companies would be required to run powerflows with set parameters each year to see the impact of the changes/impact their engineering designs are having.
 - Supply point powerfactor will change over time. A typical supply point provides 60 to 75% active power. The remaining 40 to 25% is reactive and effectively consumes capacity for no benefits. Reducing reactive powerflows at local and national level will have significant positive effect. Identifying and implementing reduction strategies is a “low hanging fruit” that can have significant cost and environmental savings. An initial monitoring starting point would be to consider changes to grid reactive powerflows.
- It is recognised that two of the more difficult areas to measure definitively are effective hazard control and “network resilience” to natural disasters or events. These issues have been “side stepped” by regulators to date however the Christchurch earthquake is a reminder to us all on the importance of these issues. At this time serious thought has not been given to the options for bench marking these back into the economic comparisons. Discussions with the technical staff within the Commission on how this could be achieved would be welcomed.

Brent Norriss
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