

# Asset management and energy infrastructure investment update

Insights and priorities

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# Background

This presentation includes material from:

- Asset management and infrastructure presentation to NZ Downstream Conference on 14 March 2018.
- Slides presented during recent visits to 12 EDB's.

**“Our vision is that New Zealanders are better off because markets work well, and consumers and businesses are confident market participants.”**



# Our strategic priorities

Investment

All areas are being progressed but our main focus is level of investment.

Profitability

This is driven by our assessment of the impact investment has on consumers, and the risks associated with it.

Quality

Our 2016 report assessed profitability and to a lesser extent quality.

Pricing

We are always interested in your views regarding where we should focus our efforts.

Innovation

Efficiency



# Our main focus areas

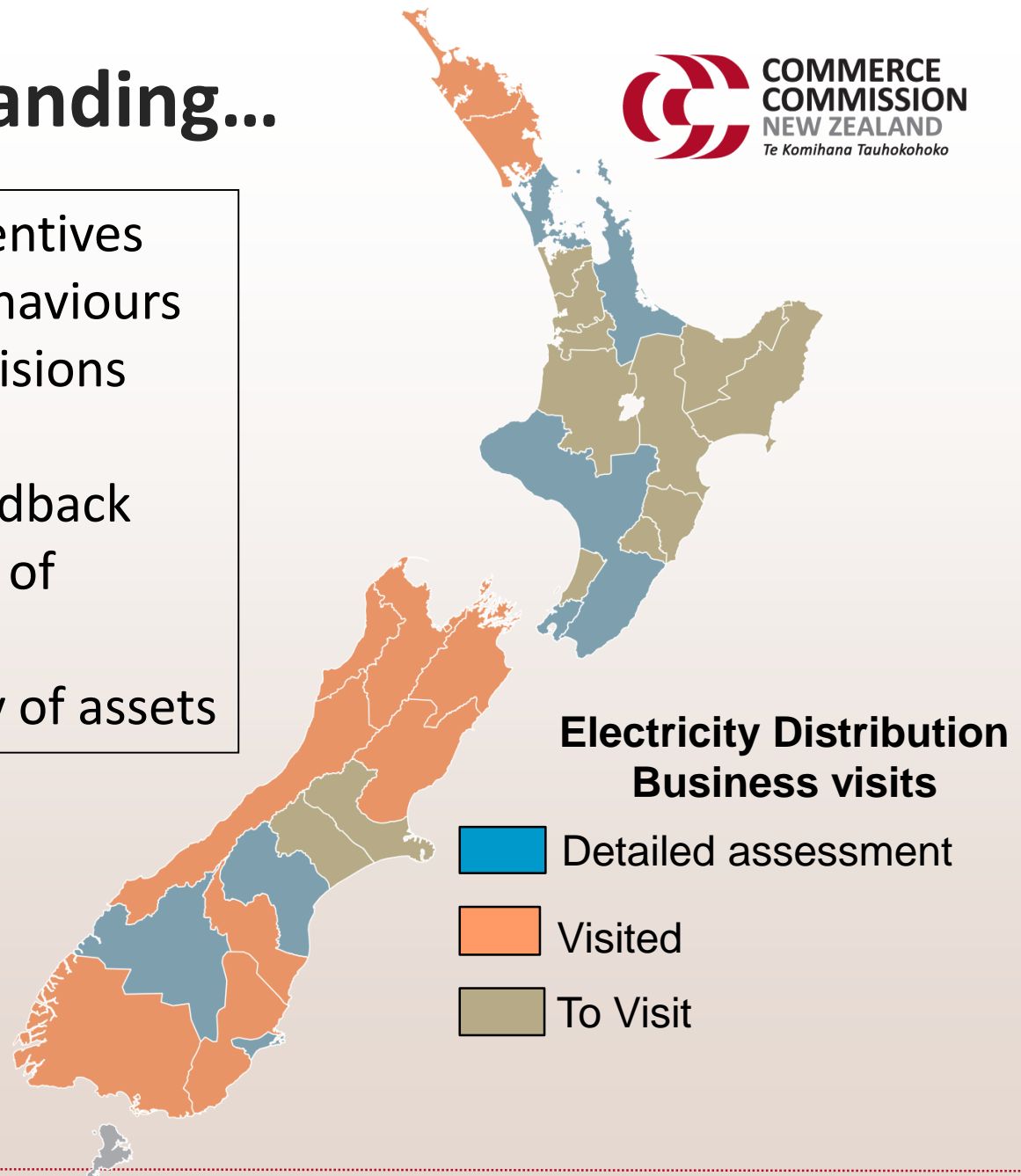
Our next phase of priorities for regulating suppliers under Part 4 of the Commerce Act will focus on:

- Building a greater understanding of network performance
- Assessing regulated suppliers' investment proposals
- Making performance information available to a wider audience
- Monitoring compliance and taking enforcement action where necessary
- Incorporating feedback from the sector into our future decision making processes

# Improving understanding...

- Investment levels and incentives that promote the right behaviours
- How businesses make decisions about managing assets
- How does stakeholder feedback influence decision making of businesses
- Asset health and criticality of assets

**We have also recently completed DPP resets for gas pipeline businesses and we are preparing our next price quality review for Transpower (RCP3)**



# We all need to know more...

1.8

When analysing information disclosure data, we understand explanations are important



Capex to depreciation ratios

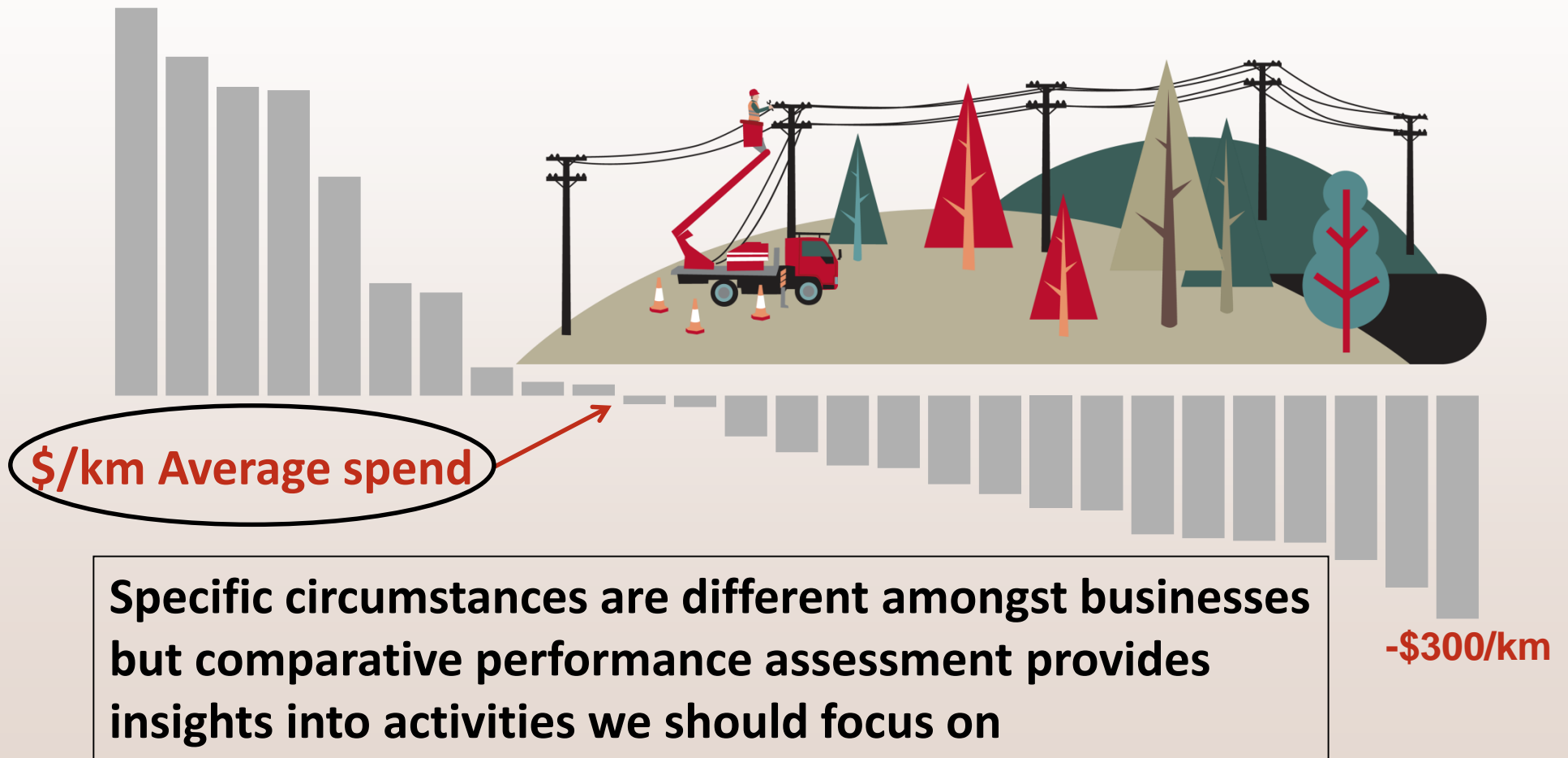
May indicate investment needs to increase but dependent on number of issues such as lifecycle of assets and categorisation of costs

0.5



# Vegetation management example...

+\$500/km





# Focus on investment

An approach to understanding a strong and sustainable network.

1

## Renewal

Driven by depreciation with increasing reliability over time due to asset improvements.

Hazard control a priority driver.

2

## Growth

Aligned to revenue growth net of price rises over the medium term.

Must be 'bankable' (appropriate risk-sharing).

3

## Quality

Investment aligned to customer needs.

Subject to customers willingness to pay more. Need to demonstrate how delivering for customers.

4

## Opex

Vegetation management.

Other opex aligned to peer groups by unit rates (per km or per ICP).

# Assessing investment plans

High quality asset management plans and asset management frameworks are key to improving understanding because:

- Condition of assets and linkages to reliability, resilience and data quality can be made
- Strategies and investment decisions for managing critical assets, risks and hazards are clear
- Link to corporate strategies and customer expectations



# Making information available

## Why?

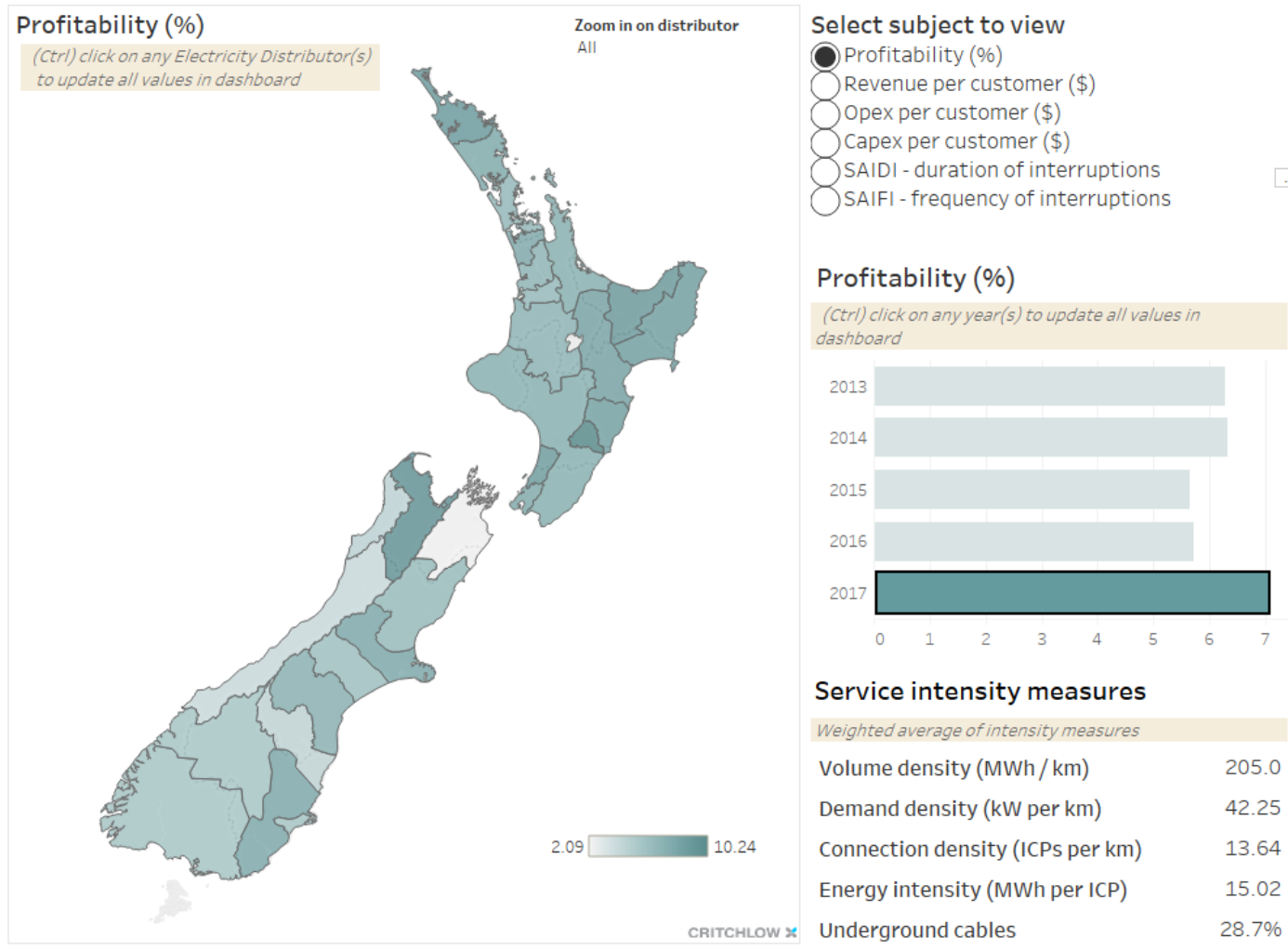
- Customers have expressed concern about higher prices in future to pay for current and past investment decisions
- Important to share information with stakeholders, particularly with regard to condition and resilience and how it affects them

## How?

- Released one page summaries to provide snapshots of company performance and an interactive performance assessment tool
- Further development will include investment ratio and asset condition dashboards

# Our Performance Assessment Tool

## High level ratios



# PAT categories

Capital expenditure

Operating expenditure

Revenue and profitability

Reliability

Service intensity

Demand



# Monitoring compliance and taking enforcement action



- It is preferable to prevent breaches before they arise
- Where potential breaches do occur, we will investigate these and take action where necessary
- There are a number of ways we can seek remedies for breaches, and our enforcement action will continue to focus on conduct of a company, the detriment this has had, and solutions that are in the public interest

**We want to make sure our compliance approach adds value for customers and incentivises the right industry behaviours**

# We are listening...

We have read with interest responses to our open letter and CPP decisions. In response we propose to:

- Undertake a post-CPP appraisal once Powerco and Wellington Electricity processes are complete
- Maintain close liaison with stakeholders and industry groups
- Consider if quality standards and incentives can be more effective
- Continue to interface closely with other regulators
- Focus on customers receiving long-term value for money
- Incorporate feedback from industry when refining the PAT



# The important messages...

- Network providers need to become increasingly focused on the health and criticality of their assets
- Industry need to take the initiative and become more forward/predictive looking in the way they manage their assets and demonstrate value for customers
- We see differing capability amongst individual networks – we want industry to take the lead but will provide strategic leadership where needed
- We will be more proactive in assessing appropriateness of investments and levels of resilience, with more information being made available

# Suggested further reference...

- <http://www.comcom.govt.nz/regulated-industries/>
- <http://www.comcom.govt.nz/regulated-industries/electricity/performance-analysis-and-data-for-distributors/performance-accessibility-tool-for-electricity-distributors/>
- <http://www.comcom.govt.nz/regulated-industries/electricity/performance-analysis-and-data-for-distributors/performance-summaries-for-electricity-distributors/>
- <http://www.comcom.govt.nz/regulated-industries/electricity/performance-analysis-and-data-for-distributors/profitability-of-electricity-distributors/>

