



Powerco Customised Price-quality Path: Transition to delivery

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Powerco / 19 June 2018

Introduction

- Following our Customised Price-quality Path (CPP) application in June 2017, the Commission largely approved the proposal in March 2018
- Our five year period began the 1st April 2018 – we are almost three months in already
- Delivery will be challenging both from the amount of physical work to do, and required business change

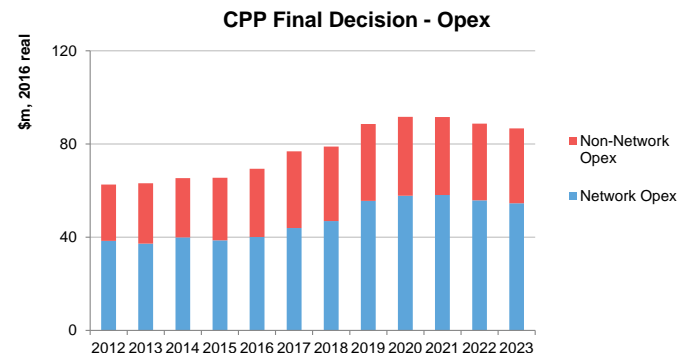
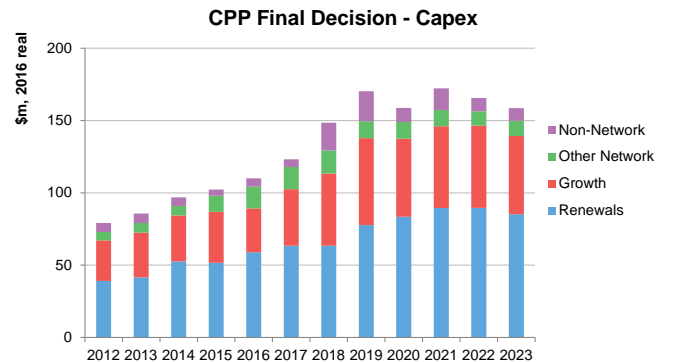
This presentation will cover:

- A recap of our CPP proposal and final decision
- The new reporting requirements of our CPP
- What this means for how we manage our business
- The business change required as part of this

Our CPP Proposal and Decision

- We submitted our CPP to ensure customers continue to experience a safe, secure and resilient network
- This requires increased investment across most expenditure areas: renewal, maintenance, network reinforcement and internal capability
- 96% of the expenditure proposal was approved by the Commerce Commission, translating into an initial 4.5% increase in distribution charges (with CPI adjustments in subsequent years)
- We now have to deliver the commitments we made to our customers

	Powerco proposal	Our decision
Opex	\$455m	\$447m
Capex	\$873m	\$825m
Total expenditure	\$1.32b	\$1.27b



Excerpts from the CPP Final Decision

“In allowing Powerco to increase prices, we and consumers want assurance that the proposed investment does indeed occur, that it targets the necessary areas, and is effective in improving the long-term delivery of safe, efficient and reliable electricity lines services to consumers.”

“We want to ensure Powerco is transparent about how it is delivering the proposed investment it has committed to deliver during the CPP period. Accordingly, our final decision is to require Powerco to provide a stakeholder focused annual report on the delivery of its planned investments.”

“Importantly, Powerco’s plans include investments to drive improvements in its asset management practices. These improvements should yield further benefits for Powerco and its consumers, and minimise the lifetime cost of providing services to consumers.”

The Annual Delivery Report

Requirement - submit an Annual Delivery Report (ADR) to the Commerce Commission, and make it publicly available.

Purpose - *“a stakeholder facing document that provides an easy to understand, annual update on Powerco’s progress against the key commitments made in its CPP proposal. The key purpose should be to clearly and easily demonstrate Powerco’s progress in delivering its CPP commitments to a broad stakeholder audience.”*

Timing - yearly in early September (5 months after financial year end), aligned to information disclosure.

Signoff - director’s certificate required for signoff.

Stakeholder engagement - requirement for annual stakeholder events to present ADR, as well as an in-depth ‘technical’ workshop with the Commission.

Notice to supply information to the Commerce Commission under section 53ZD of the Commerce Act 1986

To: Powerco Limited
Level 2
Npdc Civic Centre
84 Liardet Street
New Plymouth 4310

1. Purpose of the Notice

1.1 For the purpose of carrying out its functions and exercising its powers under Part 4 of the Act, the Commission requires, under section 53ZD(d) of the Act, that Powerco provides the Commission with the information and director certifications specified in this notice.

2. Interpretation

2.1 Unless the context otherwise requires:

- (a) terms in bold type in this notice, including its schedules, have the meaning given to those terms in clause 4.2 of the *Powerco Limited Electricity Distribution Customised Price-Quality Path Determination 2018, [2018] NZCC 5*, where the term ‘assessment period’ in this notice has the meaning given to that term in paragraph (a) of the definition of ‘assessment period’ in clause 4.2 of the *Powerco Limited Electricity Distribution Customised Price-Quality Path Determination 2018, [2018] NZCC 5*;
- (b) terms used in this notice that are defined in the Act but not in this notice have the same meanings as in the Act;
- (c) terms used in this notice that are defined in the **IM determination** but not in this notice have the same meanings as in the **IM determination**;
- (d) any reference to a period of time is interpreted in accordance with section 35 of the Interpretation Act 1999;
- (e) a word which denotes the singular also denotes the plural and vice-versa;
- (f) any reference to “clause” or “Schedule” is to a clause or schedule of this notice;
- (g) a reference to “Utilities Disputes Limited” includes a reference to any other entity operating an ‘approved scheme’ as that term is defined in clause 3 of schedule 4 of the Electricity Industry Act 2010; and
- (h) all expenditure information required under this notice must be provided in nominal dollars.

3. Annual Delivery Report

3.1 Within 5 months and 5 working days after the end of each assessment period,

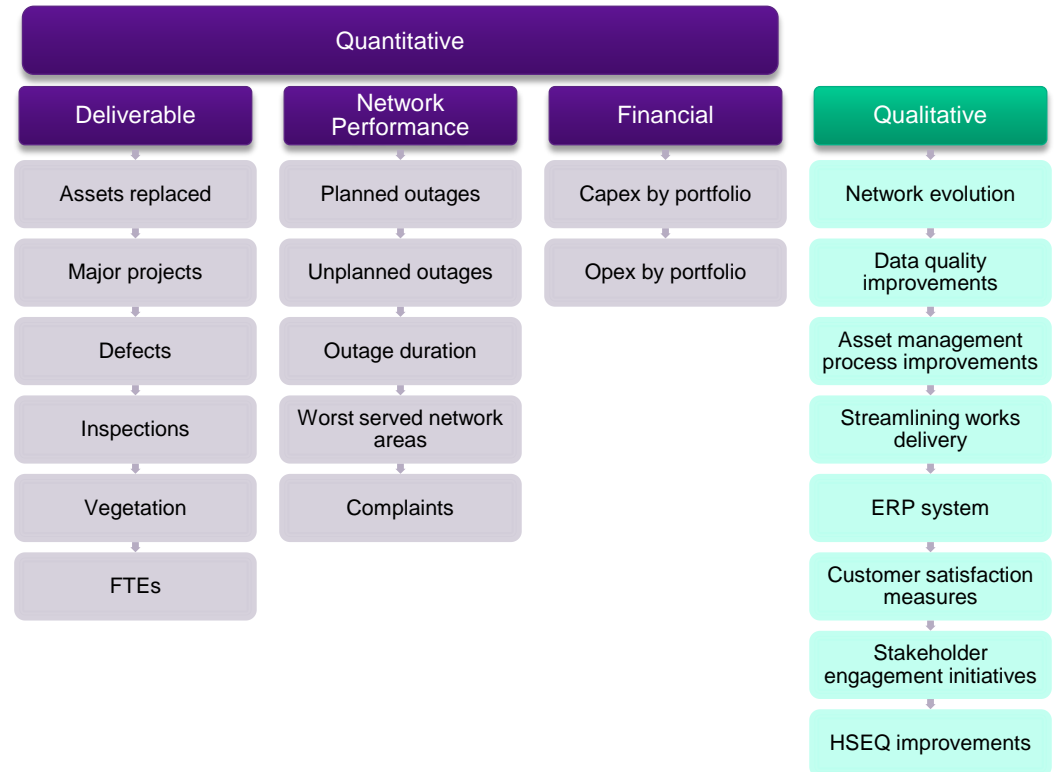
The Annual Delivery Report includes a wide range of measures

Quantitative measures

- Delivery outputs, network performance, and expenditure
- Strong focus on actual work and assets delivered, as well as on what customers experience

Qualitative measures

- Reporting on the varied business improvement initiatives that were part of the CPP proposal
- Opportunity to communicate how we are improving Powerco's processes across multiple areas, and describe deviations from CPP plan



The ADR is driving more mature KPIs

The old Powerco

- Two main measures of yearly works plan performance – budget and network performance (SAIDI/SAIFI)
- Option of playing planned and unplanned SAIDI/SAIFI off each other

The new Powerco

- Ensure we deliver what we plan (number of widgets, inspections completed, major project progress) rather than just spend the money
- Separating planned and unplanned SAIDI/SAIFI is forcing a rethink of our management approach
- A multi-dimensional problem to manage – deliverables, network performance and expenditure. A difficult juggling act!



To manage, first you must measure

- The ADR is not a compliance exercise – its measures are becoming central to how we monitor and manage our electricity business
- We are establishing new reporting aligned to the ADR
 - CPP delivery section in the monthly board report
 - Developing various new management reports
- Some measures require substantial process or system change to enable – SAP to further improve
- These new measures are driving an improved culture of accountability and delivery focus across the business



The ADR qualitative measures are important too

- We committed to a number of business improvement initiatives in our CPP proposal
- The Commission requires us to report against these as ADR qualitative measures
- There is a lot to do, on top of the increased delivery! Risk of prioritising the short term delivery challenge, at the expense of long term business improvement.
- Have established an ongoing CPP governance structure to:
 - Monitor delivery against CPP targets
 - Coordinate change initiatives

CPP Change Initiatives

Annual Delivery Report

Data quality improvements

ISO 55000

Streamlined works delivery

Stakeholder engagement and customer satisfaction

Vegetation management – new strategy

Poletop photography

Defect management improvements

Opex 'step changes'

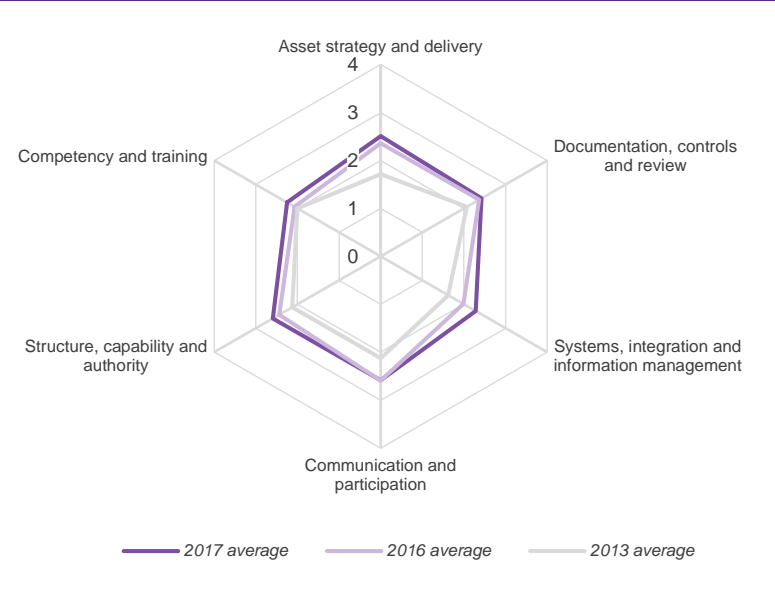
New Foundations (ERP)

Network Transformation programme

Our asset management maturity

- We recognised our need to improve our asset management maturity in our CPP proposal
- We've committed to achieving ISO 55000 certification by 2020
- We also recognised other programmes of business improvement related to asset management, such as streamlining works delivery and our ERP implementation
- Importantly for us, these improvements are 'baked in' to the CPP proposal as efficiency gains. If we don't make these improvements we won't be able to effectively or efficiently deliver our CPP.

AMMAT progression



How's it going so far?

- Not quite three months in, but
 - Transitioning our approach to SAIDI/SAIFI with planned/unplanned managed separately
 - Overall delivery ramp up going well
 - Strong focus on widgets
 - Need to ensure the smaller items don't fall between the cracks
 - Forecasts developed 2016 vs delivery in 2018
 - Continuing business education around CPP delivery challenge - now well understood
 - Beginning to focus on the change initiatives - initial focus was works delivery ramp up

Questions?