Marlborough Lines Limited
Asset Management Plan Update 2017

Table of Contents

1. Introduction 3
1.1 Purpose of the AMP Update 3
1.2 Information disclosure requirements 3
1.3 Structure 3
2. Material changes 4
2.1 Network development plans 4
2.2 Lifecycle asset management 4
2.3 Asset management practices 4
3. Information disclosure schedules 5
3.1 Schedule 11a – Forecast Capital Expenditure 5
3.2 Schedule 11b – Forecast Operational Expenditure 5
3.3 Schedule 12a – Asset Condition 6
3.4 Schedule 12b – Forecast Capacity 6
3.5 Schedule 12c – Forecast Network Demand 6
3.6 Schedule 12d – Forecast Interruptions and Duration 6

1. Introduction

1.1 Purpose of the AMP Update

The purpose of this Asset Management Plan (AMP) update is to reflect any material changes in Marlborough Lines Limited's (MLLs) asset management for the planning period from those outlined in the 2016 AMP. This AMP update covers the period of 1 April 2017 to 31 March 2026. MLL has previously disclosed an AMP update on 31 March 2014.

For the purposes of this AMP update, the interpretation of material change is any significant deviation from the full AMP published 31 March 2016 (2016 AMP). Rescheduling projects, re-categorisation of expenditure types, minor adjustments to forecast amounts and values for example, are not deemed by MLL to be material changes.

MLL's AMPs are disclosed in accordance with regulatory requirements, but more importantly, they underpin MLL's strategy for managing its' assets to meet consumer demands.

1.2 Information disclosure requirements

Section 2.6 of the Commerce Commission's Information Disclosure Determination 2012 requires that Electricity Distribution Businesses (EDBs) disclose a full Asset Management Plan (AMP) one year after the start of the Default Price Path (DPP) and two years before the start of the next DPP period. In the other years EDBs may elect to complete and publically disclose an AMP update which presents less information than a full AMP, to reduce compliance costs.

MLL, in accordance with clause 2.6.3(1) produced a full AMP for 31 March 2016; this allows for the disclosure of an AMP update for 31 March 2017 based on the aforementioned provision. As such, we have elected to prepare an AMP update. We also consider this approach appropriate considering the lack of material changes from the 2016 AMP.

1.3 Structure

This AMP update has been prepared in accordance with the requirements set out in Section 2.6 of the Commerce Commissions Information Disclosure Determination 2012. It is much more concise than the 2016 AMP. Where further detail is sought, the reader is encouraged to view the 2016 AMP.

Section 2 of this AMP update summarises the material changes that have occurred from the 2016 AMP, covering:

- Network development plans;
- Lifecycle asset management; and
- Asset management practices.

Section 2 also provides the reasons for any material changes presented in the Report on Forecast Capital Expenditure (Schedule 11a of the AMP update) and Forecast Operational Expenditure (Schedule 11b) from the 2016 AMP schedules. The completed schedules form part of the AMP update requirements for the disclosure year and include:

- Schedule 11a – Forecast Capital Expenditure
- Schedule 11b – Forecast Operational Expenditure

- Schedule 12a – Asset Condition
- Schedule 12b – Forecast Capacity
- Schedule 12c – Forecast Network Demand
- Schedule 12d – Forecast Interruptions and Duration

Information on the schedules is outlined in Section 3 of this AMP update, with the completed schedules themselves appended to this AMP update.

2. Material changes

This section provides a summary of changes to the Network development plans, lifecycle asset management and asset management practices at MLL. The schedules relating to this are summarised in Section 3 (with the schedules themselves disclosed separately with this AMP update).

MLL consider that the forecasts set out in the schedules provide an accurate summary of the expected required investment and network performance for this planning period.

2.1 Network development plans

Relative to our 2016 AMP, the only material change to the network development plans is the decision to renew and relocate the Renwick substation away from the known fault line. This decision was made following detailed geotechnical review of the existing site and the risk from fault rupture.

Further information on this is provided in Section 3.

2.2 Lifecycle asset management

For the planning period covered in this AMP update, there are no material changes for lifecycle asset management.

2.3 Asset management practices

There are no material changes to the organisations asset management practices from the 2016 AMP.

3. Information disclosure schedules

3.1 Schedule 11a – Forecast Capital Expenditure

There are a number of minor changes to the forecast capex values for the AMP update period arising from:

a) Re-evaluation of some proposed projects, as well as the identification of new projects for inclusion in the forecast period.
b) Changes to the rates on inflation used in calculating nominal dollars from the constant dollar prices. The original schedules used 1.0%, while the revised schedules use 2.0% for forecast capital expenditure and operational expenditure. The values are based on recent Consumer Price Index data as well as the Reserve Bank of New Zealand's long term inflation target.
c) The inclusion of a new substation in the Renwick area, following a detailed geotechnical assessment of the earthquake risk for the current site. This has increased the renewable expenditure capex for the years ending 31 March 2018 and 31 March 2019 from the value previously published.

The forecast actual value for 2017 is considerably less than what was forecast in the 2016 AMP. This is a result of changes in timing of some projects due to the following reasons, many of which are largely beyond MLL's control, such as:

i. The November 2016 Kaikoura earthquake. Damaged infrastructure resulting from the earthquake required a reallocation of resources away from Capex work.
ii. Prolonged procurement and delivery of higher value goods;
iii. Review and alteration of expenditure type (capex to opex) for projects involving cross arm replacement only.
iv. Prolonged negotiations in obtaining landowner approval (easements in gross to MLL) for works.
v. A focus on customer work to allow connection of new consumers (i.e. a reallocation of resources from capex work to customer driven work) across the financial year.

MLL does not consider the forecast actual values (for the 2017 financial year) to be reflective of the overall capex trend because of the reasons set out above.

3.2 Schedule 11b – Forecast Operational Expenditure

There are minor changes to the forecast operational expenditure for the planning period from those set out in the 2016 AMP.

The forecast actual operational expenditure for the current financial year is above the forecast value from the 2016 AMP. This is a result of the following:

a) Significant increase in service interruptions and emergencies work from previous years, arising from the November 2016 Kaikoura earthquake as well as a discrete number of significant storm events (such as the 19 January 2017 extreme wind event).
b) An increase in system operations and network support expenditure. This is in part a consequence of the earthquake and in part reflects the increase in the volume of smaller customer jobs requiring increased system operations and support. It also reflects an increase in staff numbers working in the area of system operations.

c) Review and alteration of expenditure type (capex to opex) for projects involving cross arm replacement only.

There is only a minor change in the forecast values from those of the previous reporting period (2016 AMP) – this is largely due to the revision of the inflation rate to 2% (from 1%) for the current planning period.

3.3 Schedule 12a – Asset Condition

There are minor changes to the asset condition values from those presented in the 2016 AMP. This is largely a result of the work on assets done in the year to date, and also ongoing improvements to the quality of the data being held against asset records.

3.4 Schedule 12b – Forecast Capacity

There are only minor changes to the forecast capacity values in this AMP update from the 2016 AMP.

3.5 Schedule 12c – Forecast Network Demand

There are only minor changes to the forecast network demand values in this AMP update from the 2016 AMP. These changes are a result of greater understanding of trend, based on figures from the current financial year.

3.6 Schedule 12d – Forecast Interruptions and Duration

Forecast interruptions and durations are included in Schedule 12d for the reporting period.

There is a discrepancy between the SAIFI values submitted in the schedule, with the equivalent schedule from MLL's 2016 AMP. The values reported in the 2016 schedule were in error; they should have reflected the correct values which were set out in Section 3.1.1.2 of the AMP and which align with the values in this reporting period.

As such, there is no change between the values submitted in Section 3.1.1.2 of the 2016 AMP and Schedule 12d of this AMP update.