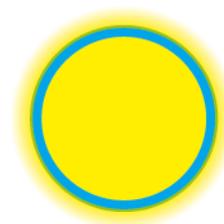


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**POWERCO**



Dear Rhianne

**Proposed amendments to information disclosure determinations for airport services, electricity distribution services, and gas pipeline services**

Powerco welcomes the opportunity to comment on the Commerce Commission's (the Commission's) consultation paper *Proposed amendments to information disclosure determinations for airport services, electricity distribution services, and gas pipeline services (the consultation paper)*.

**General comments**

Powerco is generally supportive of the Commission's initiative to amend the Information Disclosure Determination (IDD) to ensure alignment with the respective Input Methodologies (IM) for electricity distribution and gas distribution businesses.

Whilst we are supportive of the Commission initiative, we would prefer that the scope of the proposed amendments be extended. The growing backlog of potential IDD amendments listed in attachment A of the consultation paper creates difficulty when completing, auditing and understanding our disclosures.

This submission focuses on a number of non-IM related amendments. Our comments in this submission apply equally to both the electricity and gas information disclosure determination amendments unless stated otherwise.

**Proposed changes to asset health grades for EDBs align to business practice**

Powerco supports the proposal to use the Electricity Engineers' Association's (EEA) asset health indicator guide for the grading of assets rather than the current grading system specified in the IDD. Asset health grades are reported in schedule 12a. This schedule is included in the asset management plans of electricity distribution businesses (EDBs).

We consider that alignment with this recognised industry guide will improve the relevance of this information.

Powerco already uses the EEA H1-H5 categories in our asset health models so this change does not present us with any significant implementation challenges.

## Proposed further disaggregation of RAB reporting

The consultation paper proposes further disaggregation of RAB reporting. Under the proposal EDBs, GDBs, and GTBs will disclose the closing RAB value for each asset class in schedule 9a.

The Commission considers this proposed change to RAB reporting will allow:

- interested parties the ability to assess the materiality of specific assets in our RAB
- the Commission to provide improved summary and analysis on asset health.

We recommend the Commission consider this proposal in light of our comments and observations below. It would also be useful to understand how the Commission will use this information. It may be possible that other information would be more useful and fit for purpose.

Our observations:

1. Powerco does not hold RAB values by asset class for business purposes.

Powerco holds its physical assets in its GIS system and the value for the physical assets in its financial system.

When the IDD was introduced in 2012 Powerco undertook a substantive project to assign its Regulated Asset Base (RAB) values to the categories specified in the IDD.

Substantive further work would be required to report RAB values at an asset class level. It is likely we will need to make various judgements to assign current assets to a class.

Powerco anticipates that there is likely to be an inverse relationship between the level of granularity and the quality of reported RAB data. Reporting to an asset class level will add additional layers of assumptions and complexity, reducing the effectiveness of the data.

2. Schedule 9a indicates a reconciliation to schedule 4 is required.

In the marked up Draft Determination schedule 9a now includes a column for RAB values. It also includes a summary table at the bottom of the schedule for RAB values for total network asset, total non-network assets and total assets. This appears to indicate that the Commission's intention is for the RAB value in schedule 9a to reconcile with the RAB value reported in schedule 4.

Given there is already a reconciliation of RAB value by asset category in section (vii) of schedule 4, we question whether there is any additional value in including another reconciliation of RAB value at the bottom of schedule 9a.

We also remind the Commission that schedule 9a excludes a number of network assets where there is no appropriate asset class. This reflects the Commission's advice in its issues register to exclude such assets from schedule 9a.<sup>1</sup>

Although these network assets are excluded from schedule 9a, they are included in a supplier's closing RAB value in schedule 4. Therefore the closing RAB value of network assets reported in schedule 9a (assuming it is a sum of network assets reported in schedule 9a) will not reconcile with the closing RAB value of network assets in schedule 4.

To achieve reconciliation on a total RAB basis, in addition to including the closing non-network assets RAB value in schedule 9a, it appears that a 'other network assets' closing RAB value that captures the value of these 'excluded' network assets would be required.

3. Reporting non-network RAB values on a sub-network basis.

Powerco reports schedule 9a for the Powerco network and separately for sub-networks, for both our electricity and gas distribution businesses.

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<sup>1</sup> The Commission's advice in its issues register has been that such assets should be excluded from Schedule 9a – issues register item #440

The proposed reconciliation table in schedule 9a includes non-network RAB. In most instances it would not be meaningful to report our non-network RAB values by sub-network. For example, we invest in business systems that benefit the whole business. Allocating value to the sub-networks would be meaningless and is unlikely to provide interested parties with improved information or assist any asset health measures.

## **Removing cross references to IM clauses may reduce understanding**

The consultation paper proposes that cross-references to the IMs will reference only the relevant Part and Sub-part of the respective IM determination in the future. Currently the cross-references refer the reader to the specific clause, and in some instances, the sub-clause of the IMs.

Powerco is concerned that by removing the guidance to the specific clauses in the IMs, the definitions in the IDD will lose their usefulness and may hinder understanding and application of the requirements.

For example, schedule 16 of the IDD defines 4 types of depreciation:

- Depreciation – alternative depreciation in accordance with a CPP
- Depreciation – modified life assets
- Depreciation – no standard life assets
- Depreciation - Standard

Each of these terms is currently referenced to either the clause relevant for depreciation in the IM (2.2.5) or to the clause and sub-clauses guiding the determination of physical asset life (2.2.8 and its sub-clauses) in the IM. This is a complicated segment of the IMs and the reference to the exact clause or sub-clause is useful.

The consultation paper proposes to instead change the four separate definitions to simply refer to Part 2, Subpart 2 of the IM. This section discusses all information on asset valuation. This proposed change removes the usefulness of these separate definitions and does not help suppliers interpret the requirements.

Powerco recommends the Commission retain the current approach of defining terms by reference to specific clauses and sub-clauses in the IMs.

## **Proposal to amend the TCSD calculation and the references to debt premium estimates**

The consultation paper proposes amending the TCSD calculation and references to the debt premium estimates to align with the respective IMs. This will affect the calculation of ROI in schedule 2 of the information disclosure.

We raise this point for awareness only. Applying these amendments from the start of the 2019 disclosure year will reduce comparability between the information disclosure ROI and the DPP WACC used to set the regulatory price path.

## **ID amendments marked for deferral**

The consultation paper includes a reasonably large pool of outstanding issues with regard to the IDDs that the Commission has marked for deferral to future rounds of amendments.<sup>2</sup> We understand the Commission must prioritise any amendments and we anticipate future reviews of the IDD will occur in a timely manner given the growing number of issues outstanding.

While we do not seek to steer the Commission in its prioritisation of amendments, we provide two items from the deferred list that can cause confusion for readers of our disclosures. These items

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<sup>2</sup> Attachment A of the consultation paper

are the alignment of SAIDI and SAIFI definitions to price-quality path regulation and the GDB telephone call disclosures.

Further, we recommend that the list of deferred items be extended to include other matters that have been raised by suppliers for discussion.

### ***Alignment of ID and DPP SAIDI and SAIFI definitions***

The Commission has indicated it intends to defer the alignment of SAIDI and SAIFI IDD and DPP definitions.

Alignment of these definitions was previously considered and deferred during the Commissions 2015 round of amendments.

Powerco recommends that the Commission address the current misalignment as it is a source of confusion for interested persons and it adds complexity to EDB reporting and auditing.

### ***GDB telephone call disclosures***

The IDD requirement to report, by sub-network, the number of telephone calls to our emergency number answered within 30 seconds and the total number of calls by region or sub-network is an on-going issue for Powerco. We have sought and been granted exemption from this requirement since 2012.

Powerco asks that the Commission consider removing this requirement altogether during this current round of ID amendments. This requirement in the IDD only affects Powerco as we are the only Gas Distribution Business (GDB) with sub-networks as defined under the IDD. It should therefore be a reasonably straight-forward amendment of the IDD.

### ***We propose adding a review of schedule 12b to the deferred list***

Powerco recommends the Commission consider adding a review of the EDB Schedule 12b (Report on forecast capacity) to its list of deferred work.

Powerco has commented previously on the information provided in this schedule. We consider this schedule can assist interested parties understanding of our investment plans.

We find that the current format and structure of the schedule, and potentially varying interpretation and application, is likely to be limiting its effectiveness. It may hinder, in its current format, an interested party's ability to understand an EDB's investment plans, especially as those relate to subtransmission or zone substation augmentation or enhancement of capacity/performance.

Thank you for the opportunity to provide comments on this consultation. If you wish to discuss any of the points made, or clarify any matters, in the first instance please contact Nathan Hill tel. (06)759 8582, email [nathan.hill@powerco.co.nz](mailto:nathan.hill@powerco.co.nz).

Yours sincerely



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