



Information Disclosure Technical Reference Group Meeting (31 October to 1 November 2011)

Date and Venue:

Commerce Commission offices
Kauri Room, 6th floor
44 The Terrace,
WELLINGTON

Monday 31 October 2011, 9:00am–5:15pm

Tuesday 1 November 2011, 9:00am–4:30pm

Attendees:

Brent Norriss (The Lines Company)
Geoff Evans (GasNet)
Graeme Wilson (Orion)
Greg Buzzard (Powernet)
Jelle Sjoerdsma (Maui Development Limited)
Karen Frew (Powerco)
Lynne Taylor (PricewaterhouseCoopers, for the ENA)
Ryno Verster (Vector)
Anna McKinlay (Commerce Commission)
Hamish Groves (Commerce Commission)
Hazet Adam (Commerce Commission)
Isobel Oxley (Commerce Commission)
Karen Murray (Commerce Commission)
Nick Russ (Commerce Commission)
Robert Gordon (Commerce Commission)
Clive Bull (Strata Energy Consulting)

Role of the Technical reference group

1. This document records the topics discussed at the Information Disclosure Technical Reference Group ('reference group') meeting on 31 October 2011 and 1 November 2011, and for each topic records the major views put forward and next steps. The topics for discussion were determined by the Commission. The major views below for each topic record substantive suggestions that came out of the discussion; these do not necessarily reflect consensus agreement by the reference group, or the views of individual members.
2. The reference group provided technical input to the Commission in developing information requirements for the purpose of information disclosure. The reference group's input has informed elements of the Commission's Draft Information

Disclosure Determinations for EDBs and GPBs, specifically asset management information falling within the following areas:

- Network data
 - Expenditure
 - Expenditure drivers
 - Performance.
3. The Commission has taken the views of the reference group into account in developing the Draft ID Determinations. As part of this process the reference group has commented on some draft categorisations and definitions (as noted below). However the Commission is not bound by the views of the reference group.¹ Similarly, we recognise that the reference group members, and their organisations, are not bound by the views expressed at the meeting or by the outcomes of the meeting.
4. The Draft Determinations will be released for consultation, at which time all interested parties including reference group members will have an opportunity to submit on all matters covered by the Draft ID Determinations.
5. The outcomes of the reference group discussion are set out below, by topic:
- Framework for aggregating asset management data
 - Network data
 - Expenditure categories
 - Performance information
 - Expenditure drivers
 - Forecasts
 - Asset Management Plans.

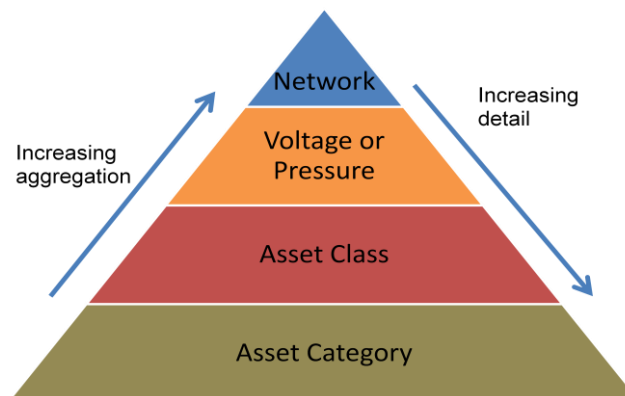
Framework for aggregating asset management data

Major outcomes

6. The Commission's aim is to develop a set of standardised data templates to form part of the Draft ID Determination, covering:
- Network data

¹ Where the Draft ID Determinations differ from the views summarised in this document, this may reflect subsequent comments from the reference group, and/or further consideration by the Commission since the reference group meeting on 31 October and 1 November.

- Expenditure
 - Performance
 - Drivers.
7. This information will be used to inform assessments of the performance of EDBs and GPBs by interested parties, and by the Commission. The information provided in the ID will be used to help assess whether the purpose of Part 4 is being met. The Commission is mindful that the greater benefit will come from looking at this information over time.
 8. There are a number of options in determining the level of detail or granularity at which information could be disclosed, and how the data could be aggregated. For this purpose the Commission proposed the hierarchy illustrated below as a framework for aggregating and disaggregating asset management information. The appropriate level of aggregation or disaggregation for disclosure purposes, for each type of information, was not agreed with the reference group. The hierarchy was reviewed and tested by the reference group. The detail pertinent to each topic was discussed over the course of the two-day meeting.



Next steps

- No action required.

Network Data

9. The Commission proposes developing an asset register template to record the existence of network assets. The Commission sought feedback from the reference group on how assets may be grouped (e.g. by asset class, by voltage/pressure), what the asset classes could be, and the asset categories included within each asset class.

Major views

10. Where assets are grouped by voltage/pressure, the definitions used should be consistent with those in Schedule A of the IM Determinations.

11. Initial thoughts for EDBs:
- The voltage definitions, consistent with Schedule A of the IM Determination for EDBs, are:
 - Low voltage: below 1kV
 - High voltage: 22kV and 11kV
 - Subtransmission: 110kV, 66kV, 50kV and 33 kV.
 - Where assets can be used for a range of voltages, they should be associated with the highest voltage involved
 - Poles should not be grouped by voltage; asset categories for poles should be 'concrete', 'wood' and 'other' (for example, lattice towers could come under the 'other' category).
12. For GDBs and GTBs, the pressure groupings in Schedule A of the IM Determinations for GDBs and GTBs are:
- Transmission, high pressure pipelines: operating pressures above 20 barg;
 - Intermediate pressure: operating pressures between 7 and 20 barg for GDBs and between 4 and 20 barg for GTBs;
 - Medium pressure: operating pressures up to 7 barg for GDBs and up to 4 barg for GTBs.
13. The IMs have different thresholds between medium and intermediate pressure pipelines for GDBs and GTBs. The Commission will separately consider whether we should define a single threshold, and if so whether it should be 4 or 7 barg. (Subsequent comment from one reference group member recommended that: a single definition should apply to both gas distribution and gas distribution; and that medium pressure should defined as up to or equal to 7 barg and intermediate pressure as between 7 and 20 barg.)

General:

- In general businesses have good information on additions by asset category, but not on disposals.
- The Commission will consider transitional arrangements for situations where companies are unable to provide actual data currently but may be able to do so in the future. Over time, businesses will be expected to fully comply with data categorizations, as they develop the necessary information systems.

Question for the Commission to consider further:

- Should zone substations be defined as an asset class in some circumstances?

Next steps

- Lynne Taylor to co-ordinate detailed feedback on the Commission's proposed draft asset register template for EDBs. (Completed);
- Geoff Evans to co-ordinate detailed feedback on the Commission's proposed draft asset register template for GDBs. (Completed);
- The Commission to meet with MDL and Vector to develop an asset register template for GTBs. (Vector and MDL have provided input on the draft asset register for GTBs.)

Expenditure Categories

14. The Commission's aim is to identify relevant expenditure categories, define the terms chosen, and determine the appropriate level of aggregation of expenditure information for each expenditure category.

Major views

15. Clearer definitions for expenditure categories are needed. Reference to practical examples would also be helpful to those applying definitions. In developing definitions it may be helpful to obtain feedback from suppliers' auditors on areas of ambiguity.
16. Definitions and categories should be consistent with the IMs (including the CPP IM and the asset valuation IM). Definitions should also, where appropriate, be aligned with GAAP.
17. Allocating costs by primary purpose, as under the current requirements, works well particularly for relatively small projects where the allocation does not have a material impact. For larger projects, splitting costs across categories to reflect multiple purposes may be appropriate. In particular, splitting costs may make sense for the gas transmission sector where project costs are generally material. It would be helpful to have a decision tree to help with cost allocation.
18. Asset-related ('direct') opex categories could be vegetation management, routine maintenance and testing, fault and emergencies.
19. Non-asset related ('indirect') opex costs may be difficult to split into subcategories (network support, business support, and system operations). On that basis, it may make sense to combine indirect opex into a single category. However, the later discussion on drivers revealed that network support, business support, and system operations have different cost drivers. Therefore there may still be a need to split these expenditure categories out.
20. Not all cost categories are relevant for gas. Where a cost category is not relevant, businesses could simply report a \$0 expenditure.

21. Instead of including an 'other' category under opex, opex could include a category 'one-off costs' for non-typical expenditure. Similarly, non-system fixed assets could include a category for 'one-off costs'. Where costs are reported under this category a commentary on cost incurred could be provided.
22. The costs of retail functions should be split out and reported separately (where appropriate).
23. Capex with the primary purpose of complying with an external legal change (e.g. changes to safety standards, environmental standards, or other legal requirements impacting on the network) could be grouped in a separate category. This includes any catch up expenditure to comply with existing legal standards. This category is intended to capture step-changes in legal requirements, such as safety or environmental standards. This category is not intended to capture ongoing safety-related activity.

Next steps

- The Commerce Commission to circulate draft definitions for expenditure categories to reference group members for comment. (This has been done.)

Performance Information

24. This session discussed options for defining, categorising and reporting performance.

Major views

25. The Commission will develop and consult on draft ID requirements to collect standardised data on faults covering:
 - What type of asset faulted (the asset category, asset class, etc.)
 - The cause of the fault
26. ID will also standardise data on interruptions which will build on the fault data and in addition include:
 - Number of interruptions
 - Duration of interruptions

Next steps

- No additional input required from the reference group at this time.

Expenditure Drivers

Major views

27. The group identified a number of expenditure drivers for each of the expenditure categories, including:

Expenditure category	Drivers
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Direct opex: faults and emergency	<ul style="list-style-type: none"> Third party faults Length of network Weather (for electricity) Asset condition Age profile PREs Geography Extent of urban and rural network Length of overhead lines (for electricity) Degree of forestation (for electricity) Length of the 11kV network (for electricity) Cast iron pipes or pre-1985 PE pipes (for gas) Soil density
Direct opex: vegetation management (for electricity)	<ul style="list-style-type: none"> Trees cut, including whether the vegetation management programme is steady state or not Length of overhead lines Length of lines affected by forests/vegetation Length of remote/rural lines Tree faults
Direct opex: routine maintenance	<ul style="list-style-type: none"> Number of assets Inspection cycle Legislation Hours spent Copper stolen (for electricity) Risk Past standards (for how networks were built)
Indirect opex: network support	Business size
Indirect opex: system operations	Scale
Indirect opex: business support	
Capex: Customer connections	Number of new connections, large/small connections
Capex: System growth	<ul style="list-style-type: none"> Capacity (by asset class) Demand System security standards Degree of network utilisation
Capex: Asset replacement and renewal	<ul style="list-style-type: none"> Condition/ remaining life Asset health Fitness for purpose of the asset Risk (including environmental and safety risks) Faults Cast iron pipeline (gas) Reliability (transmission) Past standards (for how networks were built)
Non-system fixed assets	Scale

28. Businesses make trade-offs between network support expenditure and business support expenditure, which any analysis needs to recognise and account for. Also, each company's capitalisation standards may differ, affecting the comparability of opex between companies. (This issue affects some businesses more than others.)

Next steps

- The Commission will draft possible metrics for collecting information on expenditure drivers, including proposed level of aggregation for each metric. Further input from the reference group to be confirmed.

Forecasts

29. The focus of this discussion was on the level of detail at which the asset management information could be forecast, and appropriate forecast horizons.

Major views

30. Businesses should be able to provide more detailed forecast information for the near term. How long this is, e.g. one or two years, will depend on the specific business's planning cycle. Beyond that forecasts will be more generic and assumption based.
31. Customer connections and asset relocations may be difficult to forecast with any certainty, as they depend on external parties, and may not be known very far in advance. Projections of customer connections should be informed by expected demand growth (informed by GDP or population growth).

Next steps

- No additional input required from the reference group at this time.

Asset Management Plans

32. This session discussed how the AMP fits in with the quantitative disclosures.

Major views

33. The qualitative story will be important in interpreting any analysis of quantitative measures. A lot of the information discussed in the previous sessions is already contained in AMPs. If quantitative information on asset management is to be separated out, it is important that qualitative information explaining differences between businesses is retained, and taken account of in any analysis the Commission undertakes.

Next steps

- No additional input required from the reference group at this time.

Meeting closed 1 November 2012, 4:30pm

Signed: _____ Date: _____

Karen Murray,
Manager Regulation