

# **Information Disclosure Requirements for Transpower**

## **Reasons Paper**

Date: 28 February 2014

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## Table of abbreviations

<b>Abbreviation</b>	<b>Definition</b>
AMMAT	Asset management maturity assessment tool
AMP	Asset management plan
Capex	Capital expenditure
CIC	Customer Investment Contract
EV	Economic value
FX	Foreign exchange
GAAP	Generally Accepted Accounting Principles
HVAC	High-voltage alternating current
HVDC	High-voltage direct current
IM	Input methodologies
IPP	Individual Price-Quality Path
IRIS	Incremental Rolling Incentive Scheme
IRR	Internal rate of return
Opex	Operating expenditure
R&D	Research and development
RAB	Regulatory asset base
ROI	Return on investment
SOSPA	System Operator Service Provider Agreement
TASC	Technical Advisory Services Contract
TCSD	Term-credit spread differential
TPM	Transmission Pricing Methodology
WACC	Weighted average cost of capital

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## Executive summary

### We have set information disclosure requirements for electricity transmission and system operator services

- X1 We have determined information disclosure requirements for the electricity transmission services and system operator functions provided by Transpower New Zealand Limited (Transpower). The requirements have been determined under Part 4 of the Commerce Act 1986 (the Act).
- X2 The requirements are set out in *Transpower Information Disclosure Determination 2014*, NZCC 5. Supporting the determination is a Microsoft Excel workbook that contains schedules for disclosing certain information. Both of these documents are available on our website.
- X3 The requirements apply for the first time for the disclosure year ending 30 June 2015, and supersede the *Electricity (Information Disclosure) Requirements 2004*.
- X4 We have finalised the requirements after considering material provided by Transpower and other industry participants. We have also taken account of the information disclosure requirements that we have set for other regulated sectors.

### What the requirements aim to achieve

- X5 The Act specifies that we must determine information disclosure requirements to ensure that sufficient information is readily available to interested persons to assess whether the purpose of Part 4 is being met.
- X6 The purpose of Part 4 is to promote the long-term benefit of consumers in markets where there is little or no competition and little or no likelihood of a substantial increase in competition. This is to be done by promoting outcomes that are consistent with outcomes produced in competitive markets such that suppliers of regulated goods or services:
  - X6.1 have incentives to innovate and to invest, including in replacement, upgraded, and new assets,
  - X6.2 have incentives to improve efficiency and provide services at a quality that reflects consumer demands,
  - X6.3 share with consumers the benefits of efficiency gains in the supply of the regulated goods or services, including through lower prices, and
  - X6.4 are limited in their ability to extract excessive profits.

### How we have designed the requirements

- X7 In designing the requirements we have aimed to:
  - X7.1 ensure disclosure of quantitative and qualitative information,

- X7.2 ensure that information is comparable over time,
- X7.3 minimise compliance costs,
- X7.4 leverage off Transpower's existing reporting requirements, and
- X7.5 encourage Transpower to continue innovating with its reporting.

### The information Transpower is required to disclose

- X8 We have provided for the minimum package of information that we consider interested persons will need to understand whether the purpose of Part 4 is being met for electricity transmission and system operator services.
- X9 Transpower will be required to disclose financial, grid management, and system operator information.

**Table X1 Summary of information disclosure requirements**

Information category	Information disclosure requirements
Financial information	<p><b>Financial performance:</b> Return on investment, regulatory profit, regulatory asset base, related party transactions</p> <p><b>Expenditure:</b> Operating expenditure, base capital expenditure, major capital expenditure, incentive mechanisms</p> <p><b>Revenues:</b> Total revenue, customer charges, investment contracts</p>
Grid management information	<p><b>Quality:</b> Grid outputs, interconnection quality</p> <p><b>Asset management information:</b> Asset management maturity assessment tool, grid demand and capacity, additional disclosures in the Integrated Transmission Plan</p> <p><b>Grid composition information:</b> System statistics, asset health, age and changes</p>
System operator information	<p><b>Financial performance:</b> return on investment, regulatory profit, fixed assets</p> <p><b>Expenditure:</b> Operating expenditure, capital expenditure, forecast expenditure</p> <p><b>Revenue:</b> System Operator Service Provide Agreement revenue, Technical Advisory Services Contract revenue</p>

- X10 This information will primarily be disclosed in two of Transpower's existing reports. They are:
  - X10.1 the Annual Regulatory Report,
  - X10.2 the Integrated Transmission Plan.
- X11 Certain information, however, will be disclosed separately to the above reports due to the timing of data availability or the nature of the information.

## 1. Introduction

- 1.1 We have determined information disclosure requirements that apply to the electricity transmission services and system operator functions provided by Transpower New Zealand Limited (Transpower). The requirements have been determined under Part 4 of the Commerce Act 1986 (the Act).<sup>1</sup>

The requirements are set out in the *Transpower Information Disclosure Determination 2014*, NZCC 5, referred to in this paper as ‘the determination’. Transpower must disclose some information in template form. Templates that we have specified are contained in a separate Microsoft Excel workbook, which we refer to as schedules.<sup>2</sup>

- 1.2 The requirements first apply to the 2015 disclosure year (the year ending 30 June 2015), and supersede the information disclosure requirements that have been in place since 2004.<sup>3</sup>
- 1.3 This paper outlines how we have approached setting the requirements and our reasons for the requirements.

### How we have structured this paper

- 1.4 We have structured the main body of this paper in a way that allows us to first explain the purpose and role of information disclosure regulation and how we determined what information is necessary to meet the purpose of information disclosure (Chapter 2).
- 1.5 We then explain how Transpower will disclose information, including the form the disclosures will take, how the disclosures fit in to Transpower’s other information reporting requirements, and the timing of disclosures (Chapter 3).
- 1.6 The information that we are requiring to be disclosed is explained under three main categories:
- 1.6.1 financial information concerning the electricity transmission services provided by Transpower, including financial performance, expenditure and revenue (Chapter 4)

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<sup>1</sup> Legislative references in this paper refer to the Commerce Act 1986, unless otherwise specified.

<sup>2</sup> The determination and accompanying schedules are available on our website at <http://www.comcom.govt.nz/regulated-industries/electricity/electricity-transmission/transpower-information-disclosure/>.

<sup>3</sup> *Electricity (Information Disclosure) Requirements 2004* see: <http://www.comcom.govt.nz/regulated-industries/electricity/electricity-archive/information-disclosure/>

- 1.6.2 grid management information, including quality performance, asset management and grid composition, (Chapter 5)
- 1.6.3 system operator information, including financial performance, expenditure and revenue (Chapter 6).<sup>4</sup>
- 1.7 In attachments to the paper we provide additional details on:
  - 1.7.1 the regulatory framework for Transpower and information disclosure (Attachment A)
  - 1.7.2 our approach to ensuring the information disclosure requirements are cost-effective (Attachment B)
  - 1.7.3 assurance requirements (Attachment C)
  - 1.7.4 return on investment (ROI) calculation and cash-flow timing assumptions (Attachment D)
  - 1.7.5 calculation of regulatory profit (Attachment E)
  - 1.7.6 Transpower's current information reporting requirements (Attachment F).

#### **What material we have considered in finalising the requirements**

- 1.8 We have finalised the requirements after considering material provided by Transpower and other industry participants. The material we have considered includes specific information that we requested, as well as submissions and cross-submissions on:
  - 1.8.1 the draft requirements that were published on 21 October 2013, and
  - 1.8.2 the revised draft requirements that were published on 7 February 2014.<sup>5</sup>
- 1.9 We have also taken account of the information disclosure requirements that we have set for other regulated sectors. In developing those information disclosure requirements, we considered a large amount of material provided by submitters during consultation.

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<sup>4</sup> Transpower's role as the system operator is considered, by way of s 54B(2) of the Act, to be a regulated service supplied by Transpower; see Attachment A.

<sup>5</sup> For our draft and revised draft requirements, accompanying material, and submissions, see our information disclosure webpage at <http://www.comcom.govt.nz/regulated-industries/electricity/electricity-transmission/transpower-information-disclosure/>

## 2. The purpose and role of information disclosure

### Purpose of this chapter

- 2.1 This chapter briefly explains what information disclosure is, and what the purpose of information disclosure regulation is under Part 4 of the Act. This chapter also provides an overview of the approach that we used to determine what information is necessary to meet the purpose of information disclosure

### What is information disclosure?

- 2.2 Information disclosure is a form of light handed regulation that promotes incentives for organisations to improve their performance such that outcomes are consistent with those found in workably competitive markets. Information disclosure operates by requiring the regulated organisation to regularly and consistently make information about its business available to people outside the organisation. This creates transparency about how a supplier is performing.
- 2.3 This information allows people interested in the organisation to assess its performance. This may include assessing the organisation's performance relative to its peers and changes in its performance over time.
- 2.4 Electricity lines services are subject to information disclosure regulation under s 54F of Part 4 of the Act. Transpower provides electricity lines services under the Act.<sup>6</sup> This includes Transpower's provision of system operator services.<sup>7</sup>

### The purpose of information disclosure under Part 4

- 2.5 The purpose of information disclosure, under s 53A of the Act, is to ensure that sufficient information is readily available to interested persons to assess whether the Part 4 purpose is being met.<sup>8</sup>
- 2.6 The purpose of Part 4 is to promote the long-term benefit of consumers in markets where there is little or no competition and little or no likelihood of a substantial increase in competition. This is to be done by promoting outcomes that are consistent with outcomes produced in competitive markets, such that suppliers of regulated goods or services:
- 2.6.1 have incentives to innovate and to invest, including in replacement, upgraded, and new assets,

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<sup>6</sup> Commerce Act 1986, s 53C(1).

<sup>7</sup> Commerce Act 1986, s 54B(2).

<sup>8</sup> Commerce Act 1986, s 52A(1).

- 2.6.2 have incentives to improve efficiency and provide services at a quality that reflects consumer demands,
  - 2.6.3 share with consumers the benefits of efficiency gains in the supply of the regulated goods or services, including through lower prices, and
  - 2.6.4 are limited in their ability to extract excessive profits.
- 2.7 To understand whether the relevant outcomes consistent with workably competitive markets are occurring, interested persons should have sufficient information to assess the performance of suppliers.
- 2.8 The Part 4 purpose highlights the importance of incentives: incentives to innovate and to invest (s 52A(1)(a)), and incentives to improve efficiency and provide services at a quality that reflects consumer demands (s 52A(1)(b)).
- 2.9 We consider that the practical test of whether incentives are working is whether suppliers are responding to those incentives. We therefore believe that interested persons can only assess whether these elements of the Part 4 purpose are being met by examining evidence of their performance—both historical performance and expected future performance.

#### *How information disclosure promotes the Part 4 purpose*

- 2.10 Information disclosure improves transparency of suppliers' performance. The disclosure of information about performance can also encourage suppliers to improve their performance by allowing interested persons to highlight areas of weak and strong performance.
- 2.11 An effective information disclosure regime provides transparency to interested persons of the performance of regulated suppliers. This will then provide an on-going source of information so that trends can be identified and monitored over time, which will allow interested persons to assess whether the Part 4 purpose is being met.
- 2.12 In addition, the publication of summaries and analysis under s 53B(2)(b) can encourage Transpower to improve its performance by highlighting to interested persons (including Transpower) performance levels, relative performance, and trends in performance over time.

#### **How we determined what information is necessary for information disclosure**

- 2.13 To determine what information is necessary to meet the purpose of information disclosure:
- 2.13.1 we first outline our interpretation of the key terms in the purpose statement for information disclosure
  - 2.13.2 second, we consider the questions interested persons need to ask to assess whether the Part 4 purpose is being met

- 2.13.3 third, we set out the information we consider interested persons need to answer these questions.

### **How we have interpreted key terms in the Act**

- 2.14 Section 53A of the Act states that the purpose of information disclosure is to ensure that sufficient information is readily available to interested persons to assess whether the Part 4 purpose is being met.
- 2.15 To develop requirements for Transpower, we needed to understand of what the key terms in the s 53A of the Act meant. Below is how we interpret these terms.

#### *‘Interested persons’*

- 2.16 We interpret ‘interested persons’ broadly to include, among others, persons who are affected by the way in which regulated services are provided. Therefore, we consider interested persons to include:
- 2.16.1 Transpower
  - 2.16.2 other regulated suppliers (this includes electricity distribution businesses, gas pipeline businesses and airports)
  - 2.16.3 consumers and consumer groups
  - 2.16.4 electricity retailers, electricity generators, and their representative groups
  - 2.16.5 central government and regional authorities
  - 2.16.6 other regulatory agencies, such as the Electricity Authority
  - 2.16.7 any other stakeholders, such as suppliers, of Transpower
  - 2.16.8 the Commerce Commission.
- 2.17 Interested persons are a diverse group. Their particular information needs will vary depending on their particular areas of interest and available resources. Some interested persons will wish to undertake their own customised analysis of disclosed information, while others may lack the resources or specialist knowledge for this, and so will prefer information to be summarised and analysed for them, eg, through our summary and analysis.

#### *‘Sufficient’ information*

- 2.18 The Act requires that the information is sufficient for interested persons to assess whether the Part 4 purpose is being met. Both quantitative and qualitative information is necessary to make this assessment. Quantitative information needs to be sufficiently disaggregated to allow interested persons to understand what drives performance.

- 2.19 For example, to understand whether Transpower has incentives to invest efficiently, information about asset age, health and capital expenditure is required. Qualitative explanations assist interested persons in interpreting quantitative information.
- 2.20 In deciding on what is sufficient information, we have been mindful of the cost of disclosure requirements on Transpower. To keep those costs to a minimum, we have considered several factors, as outlined in Attachment B.

*'Readily available'*

- 2.21 The form in which information is disclosed affects interested persons' ability to use that information to assess performance. This information must be readily available to be of maximum use to interested persons. We consider the term 'readily available' requires the information to be consistent, accessible, and understandable.
- 2.22 Consistent and standardised disclosure of data helps interested persons to assess performance of Transpower, including whether it is managing its assets for the long-term benefit of consumers. Information that is standardised where possible will enable interested persons to more easily identify patterns and trends over time.
- 2.23 We have developed a Microsoft Excel workbook with schedules for certain quantitative information with the requirement that the schedules are made publicly available along with other information required by the determination. This ensures the information is accessible.
- 2.24 We have also allowed for certain quantitative and qualitative disclosures to be made in the body of an existing report where we consider will be more accessible to interested persons and will give Transpower greater ability to explain its performance.
- 2.25 Information disclosed by Transpower will also be summarised and analysed by us, which helps ensure information is understandable to all interested persons.

**Information interested persons need to assess whether the Part 4 purpose is being met**

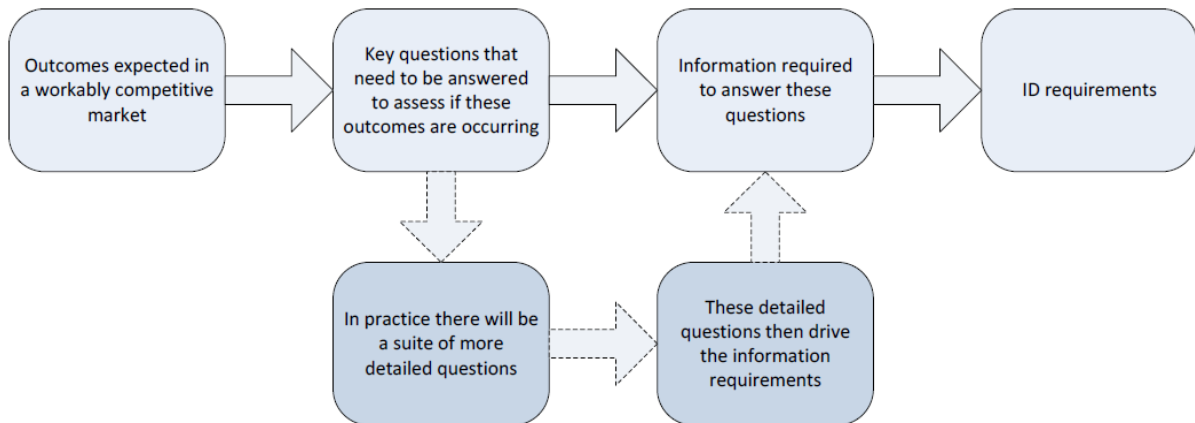
- 2.26 Our key consideration in determining the requirements was what information interested persons need to assess whether the Part 4 purpose is being met. In other words, what information is needed to determine whether the performance of Transpower is consistent with the performance outcomes one would expect to find in a workably competitive market?
- 2.27 The approach we have taken to determine the necessary information is to:
- 2.27.1 consider the performance outcomes one would expect to find in a workably competitive market, with reference to the Part 4 purpose



- 2.27.2 identify the key questions and hypotheses interested persons need to answer to assess if these outcomes are being promoted
- 2.27.3 determine the information interested persons would need to answer those questions.

2.28 Figure 2.1 illustrates this process. As the figure shows, to be able to answer each of the key performance questions, interested persons will need to consider a number of more detailed sub-questions.

**Figure 2.1 Determining the information needed to assess performance against the Part 4 purpose**



*Performance questions*

- 2.29 We consider that, to assess whether the Part 4 purpose is being met, interested persons need to be able to answer several key questions on different aspects of Transpower's performance. These questions relate to historical, current and expected future performance.
- 2.30 Table 2.1 sets out these questions and the elements of the Part 4 purpose that each question addresses.

**Table 2.1 Key performance questions to assess if the Part 4 purpose is being met**

Question No.	Key performance questions	Relevance to the Part 4 purpose (s 52A(1))
1	Is Transpower operating and investing in its assets efficiently?	(a) and (b)
2	Is Transpower innovating where appropriate?	(a)
3	Is Transpower providing services at a quality that reflects consumer demands?	(b)
4	Is Transpower sharing the benefits of efficiency gains with consumers, including through lower prices?	(c)
5	Do the prices set by Transpower promote efficiency?	(a) and (b)
6	Is Transpower earning an appropriate economic return over time?	(d)

- 2.31 Transpower's individual price-quality path is also set in a way that promotes the Part 4 purpose. Over time, the answers to these performance questions will help interested persons to understand whether price-quality regulation is being effective.
- 2.32 The questions in Table 2.1 overlap and are interrelated. Interested persons cannot answer some questions without knowing the answer to other questions. For example, to assess whether Transpower is earning an appropriate economic return over time interested persons need to have formed a view on questions 1 to 5, including whether Transpower is operating and investing efficiently, and providing services at a quality that reflects consumer demands.
- 2.33 Similarly, to assess whether Transpower is operating and investing in its assets efficiently, interested persons will need to first consider questions 2 and 3. The information required by interested persons must therefore be treated as an integrated package.
- 2.34 We have identified below some examples of the types of sub-questions interested persons must address in order to answer each of the questions identified in Table 2.1.
- 2.35 Below, we describe the types of information that we consider interested persons will need to answer the six key performance questions. We expect the specific sub-questions interested persons are interested in will evolve over time, as the sector develops and as the suite of information available under the determination matures. However, we believe the information currently required by the determination will be sufficient to address the key areas of performance identified in Table 2.1.

*Is Transpower operating and investing in its assets efficiently?*

- 2.36 This question is central to assessing performance outcomes. We consider that to answer this, interested persons are likely to explore a number of detailed questions, including:
- 2.36.1 What are the reasons for the level of current expenditure?
- 2.36.2 How does current expenditure compare to historical trends?
- 2.36.3 What are the reasons and the intended outcomes for planned operating and capital expenditure?
- 2.36.4 What is the long-term plan for the grid?

*Is Transpower innovating where appropriate?*

2.37 Innovation takes many forms and by its nature cannot be anticipated. However, we consider that in assessing whether Transpower is innovating where appropriate, interested persons are likely to examine the following:

- 2.37.1 What is current and forecast expenditure on research and development (R&D), and how does this compare to historical expenditure?
- 2.37.2 What R&D and innovation activities and outcomes has this expenditure funded (or will this expenditure fund)?
- 2.37.3 What cost efficiencies are being made by innovating?

*Is Transpower providing services at a quality that reflects consumer demands?*

2.38 To answer this question, interested persons are likely to consider a variety of qualitative and quantitative information to assess issues, such as:

- 2.38.1 What is the level of quality currently being supplied to consumers?
- 2.38.2 How has the level of quality changed over time, and why?
- 2.38.3 What are the reasons for loss of supply and unavailability events?
- 2.38.4 Is Transpower planning any new investment for the purpose of improving quality, and what impact is that expected to have?

*Is Transpower sharing the benefits of efficiency gains with consumers, including through lower prices?*

2.39 To answer this, interested persons must first assess what efficiency gains have been achieved historically. They are then likely to explore questions such as:

- 2.39.1 What are current charges paid by customers?
- 2.39.2 how have they changed over time?
- 2.39.3 why and how are they expected to change?

2.40 Transpower's individual price-quality path should encourage the sharing of efficiency gains with consumers. Information disclosure will shed light on whether the mechanisms to achieve this are operating effectively.

*Do the prices charged by Transpower promote efficiency?*

- 2.41 Transpower's prices are determined by the Transmission Pricing Methodology (TPM). The TPM sets out the methodology Transpower is to follow when setting prices.
- 2.42 The framework for the TPM is set out in the Electricity Industry Participation Code which is publicly available and governed by the Electricity Authority.<sup>9</sup> The information provided in the TPM will be helpful to interested persons to assess the extent to which Transpower's prices are efficient.
- 2.43 Disaggregated revenue information collected through the information disclosure requirements will also be helpful in making this assessment by providing more information on the outcomes of the TPM.

*Is Transpower earning an appropriate economic return over time?*

- 2.44 In assessing whether Transpower is earning an appropriate economic return over time, it is necessary to consider:
  - 2.44.1 On one hand, is Transpower earning a sufficient return?
  - 2.44.2 On the other hand, is Transpower earning excessive returns?
- 2.45 This assessment takes account of Transpower's ROI over time, but must also be informed by the answers to the five questions discussed above.

**Overview of information needed to assess whether the Part 4 purpose is being met**

- 2.46 To answer the key performance questions identified above, interested persons need a package of different types of information. In particular, interested persons require information on the following key performance areas:
  - 2.46.1 how the grid is being managed, including forward looking information on planned investment, and information on asset management processes
  - 2.46.2 operational and capital expenditure on different activities, both historic and forecast
  - 2.46.3 quality outcomes (eg, reliability of electricity transmission network)
  - 2.46.4 prices and revenues, including how prices are set, what prices are, and revenues achieved
  - 2.46.5 financial performance, in particular ROI and the key determinants of ROI.

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<sup>9</sup> *Electricity Industry Participation Code 2010*, Part 12: Transport, Subpart 4 and Schedule 12.4.

2.47 In this paper, we have separated the above types of information into the categories:

2.47.1 financial information

2.47.2 grid management information

2.47.3 system operator information.

2.48 Table 2.2 below shows the key performance questions each key performance area helps to answer and the information disclosure requirements of each key performance area included in the determination. It also shows how these relate to the three categories identified above.

**Table 2.2 How the key performance questions are answered**

Information category	Key performance area Information disclosure requirements	Key performance question information helps answer (see Table 2.1)
Financial information	<p><b>Financial performance:</b> ROI, regulatory profit, regulatory asset base, related party transactions</p> <p><b>Expenditure:</b> Operating expenditure, base capital expenditure, major capital expenditure, incentive mechanisms</p> <p><b>Revenues:</b> Total revenue, customer charges, investment contracts</p>	1,2,4,5,6
Grid management information	<p><b>Quality:</b> Grid outputs, interconnection quality</p> <p><b>Asset management information:</b> Asset management maturity assessment tool, grid demand and capacity, additional disclosures in the Integrated Transmission Plan</p> <p><b>Grid composition information:</b> System statistics, asset health, age and changes</p>	1,2,3
System operator information	<p><b>Financial performance:</b> ROI, regulatory profit, fixed assets</p> <p><b>Expenditure:</b> Operating expenditure, capital expenditure, forecast expenditure</p> <p><b>Revenue:</b> System Operator Service Provide Agreement revenue, Technical Advisory Services Contract revenue</p>	1,2,3,4,5,6

## Financial information

### *Information on financial performance*

- 2.49 The ROI is an important measure of profitability. To assess whether Transpower is earning an appropriate economic return over time, interested persons need information on key determinants of the ROI and how they change over time.
- 2.50 The key determinants are regulatory profit and the value of the regulatory asset base (RAB), including how the RAB value is rolled forward.
- 2.51 Regulatory profit represents the returns earned by Transpower, assessed against Transpower's investments.
- 2.52 Interested persons need information on revenue to assess that Transpower is earning returns consistent with a workably competitive market. A breakdown of these revenues is required to assess this and ensure Transpower is not-engaging in cross-subsidisation of services and therefore that Transpower is operating efficiently.
- 2.53 To assess whether a given level of return is appropriate, it is also necessary to consider other aspects of Transpower's performance. For example, is Transpower investing in and maintaining its network? Is it sharing any efficiency gains with consumers? Any assessment of Transpower's financial performance must therefore take account of the other information identified above.

### *Historical and forecast operational and capital expenditure on different activities*

- 2.54 We require Transpower to disclose information on historical and forecast expenditure on different activities (for example, expenditure on maintenance projects for transmission towers).
- 2.55 The disclosure of historical expenditure information, alongside information on grid management, will assist interested persons in assessing current performance and to examine trends in performance.
- 2.56 The disclosure of forecast expenditure information provides transparency on Transpower's future requirements for operating the grid and its expected performance.
- 2.57 Providing this information at a disaggregated level creates transparency over where Transpower is incurring its expenditure. This will assist interested persons with understanding changes in total expenditure over time and the trade-offs between operating and capital expenditure.
- 2.58 In addition, the disclosure of actual and forecast expenditure will enable interested persons to compare planned and actual outcomes. By reconciling actual to forecast expenditure, interested persons can increase their understanding of whether innovation and efficiency are being realised in Transpower's investments over time.

- 2.59 This information, in conjunction with other data disclosed, enables interested persons to assess the reasonableness of Transpower's forecasts, the appropriateness of investment timing, and the extent to which projects are delivering the expected outcomes.

*Information on revenue and prices*

- 2.60 Information on prices and revenues is needed to judge whether prices set by suppliers promote efficiency, and whether suppliers are sharing efficiency gains with consumers. To answer these questions, interested persons need information on:
- 2.60.1 how prices are set—this includes pricing methodologies used to establish standard and non-standard prices, and information on how other components of price are calculated (where applicable)
  - 2.60.2 actual prices, including the level of prices for different customer groups and for different price components
  - 2.60.3 pricing outcomes, such as the level of revenue achieved and volumes billed for different customer groups and price components.

**Grid management information**

*Information on the grid and how it is being managed*

- 2.61 Information on the composition, age, and condition of grid assets will help interested persons to understand the relationship between the current state of the grid, current expenditure and levels of service, and planned expenditure.
- 2.62 The condition, suitability and performance of Transpower's assets and the way Transpower manages and invests in its assets are critical determinants of the price, cost and quality of services that consumers receive.
- 2.63 Interested persons will also need information on the key factors that can explain differences in expenditure over time, such as the size of the grid, demand, capacity and the age and condition of the grid. This data, in conjunction with the other data listed above, enables interested persons to assess whether Transpower is managing its assets for the long-term and whether the level and timing of expenditure is efficient, such that it benefits consumers in the long-term.
- 2.64 Information on how the grid is being managed will also include qualitative explanations on Transpower's approach to asset management, for example:
- 2.64.1 the level of grid quality and risk that Transpower is currently operating at, and planning to achieve in the future and how this relates to expenditure
  - 2.64.2 whether Transpower is reviewing its asset management practices in an on-going manner, and whether this has identified areas where improvements in the management of assets are possible.

### *Information on quality outcomes*

- 2.65 To assess whether Transpower is providing services at a quality that reflects consumer demands, interested persons also need information as to whether Transpower is meeting its quality targets and the steps Transpower has taken to elicit feedback from consultation on the quality its consumers expect.
- 2.66 This assessment also requires information on the aspects of quality that are important to consumers; the quality of service currently provided and the link between service levels, planned investment and therefore future quality.

### **System operator information**

- 2.67 Due to the nature of its business, many of the requirements which apply to Transpower's electricity transmission services don't apply to the system operator.
- 2.68 For example, as the system operator is predominantly a service business, requirements around asset management are not applicable. It also has a smaller scope of activities with its quality performance being assessed by the Electricity Authority.
- 2.69 To understand the system operator's performance interested persons need similar types of financial information as required for Transpower's grid operations. This includes information on profitability, revenue, actual and forecast expenditure and its asset base.

### **Incentives for energy efficiency and demand side management, and reduced energy losses**

- 2.70 In determining the requirements, we have been mindful of s 54Q of the Act. This section requires us to promote incentives, and avoid imposing disincentives, for Transpower to invest in energy efficiency and demand side management, and to reduce energy losses. Information disclosure will help to improve understanding of Transpower's performance in these areas.
- 2.71 This is reflected in our requirement that Transpower's asset management plans describe strategies or processes that promote the energy efficient operation of the grid, such as network design strategies, demand side management strategies and asset purchasing. Transpower's asset management plans are also expected to discuss grid development options, including distributed generation and non-network solutions.



### **3. How Transpower will disclose information**

#### **Purpose of this chapter**

- 3.1 This chapter provides an overview of the form and timing of Transpower's disclosures.
- 3.2 First, we set out what we have considered in designing the requirements for how Transpower discloses its information. We then set out how information will be disclosed by Transpower, when Transpower must disclose different types of information, and when Transpower will first disclose information.

#### **Designing the requirements for how Transpower discloses its information**

- 3.3 In designing the requirements we have aimed to:
  - 3.3.1 ensure disclosure of quantitative and qualitative information,
  - 3.3.2 ensure that information is comparable over time,
  - 3.3.3 minimise compliance costs,
  - 3.3.4 leverage off Transpower's existing reporting requirements, and
  - 3.3.5 encourage Transpower to continue innovating with its reporting.

#### **Ensuring disclosure of quantitative and qualitative information**

- 3.4 Both quantitative and qualitative information are necessary to assess whether the Part 4 purpose is being met. Quantitative information must also be sufficiently disaggregated to allow interested persons to understand what drives performance.
- 3.5 Disclosure of quantitative information will allow interested persons to undertake their own analysis of Transpower's performance. This includes examining trends in the data and comparisons with overseas peers. Qualitative explanations assist interested persons in interpreting quantitative information and provide additional information that cannot be captured quantitatively.
- 3.6 Transpower is required to provide narrative on certain disclosures, for example, the causes of variances between forecast and actual expenditure. Such narrative enables Transpower to better explain and provide context for its performance.

#### **Ensuring that information is comparable over time**

- 3.7 Consistent disclosure is important to ensure that Transpower's performance can be compared over time. Consistent disclosure may also enable comparisons of Transpower's performance with overseas electricity transmission service providers. The determination requires Transpower to disclose standardised quantitative information, and in some instances use standardised schedules to provide consistent information disclosures.

- 3.8 For example, one year's ROI does not provide sufficient information to assess Transpower's performance as it may fluctuate from year to year. Interested persons need to look at the ROI over several years to more accurately understand Transpower's performance against the range of incentive mechanisms that apply to Transpower.
- 3.9 Grid performance can be affected by a number of factors, including, consumer growth and location, and natural events. Some of these factors are outside management control and change over time. Sufficient and consistent information is therefore needed to assess Transpower's performance appropriately and fairly.

### **Minimising compliance costs**

- 3.10 We recognise that providing information comes at a cost. To attempt to minimise the cost of compliance that Transpower faces we have:
- 3.10.1 taken into account Transpower's practices and capabilities,
  - 3.10.2 aligned the proposed requirements with Transpower's other regulatory requirements,
  - 3.10.3 required disaggregated information only where it is necessary and provides clear benefits,
  - 3.10.4 limited the requirements to reduce compliance costs, and
  - 3.10.5 sought input from Transpower and other parties on the requirements.
- 3.11 We discuss these matters further in Attachment B.

### **Leveraging off Transpower's existing reporting requirements**

- 3.12 We have leveraged the requirements, where practical, off the information that Transpower already discloses. In doing this, we have evaluated the information Transpower is already required to report, and how it currently reports this information.
- 3.13 Currently, Transpower's regular reporting requirements are:<sup>10</sup>
- 3.13.1 compliance reporting required by the Individual Price-Quality Path Determination (IPP) currently met through publication of Transpower's Annual Regulatory Report
  - 3.13.2 the requirement in the Transpower Capital Expenditure Input Methodology Determination (Capex IM) to produce an Integrated Transmission Plan

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<sup>10</sup> See Attachment F for the existing reporting requirements that apply to Transpower.

- 3.13.3 the current information disclosure as required by the Electricity (Information Disclosure) Requirements 2004.<sup>11</sup>
- 3.13.4 annually issued information gathering notices which Transpower currently satisfies through reporting in the Annual Regulatory Report.
- 3.14 We have designed the requirements so that Transpower publishes the bulk of the disclosures in, or as a companion to:
  - 3.14.1 the Annual Regulatory Report
  - 3.14.2 the Integrated Transmission Plan.
- 3.15 A small amount of information will be disclosed separately from the above reports due to the timing of the information being available. Standalone disclosures will be made for revenue (Schedule F6) and interconnection quality (Schedule G5).
- 3.16 With this in mind, we have avoided setting duplicate reporting requirements under information disclosure and another regulatory instrument. For example:
  - 3.16.1 Transpower is required to produce and publish an Integrated Transmission Plan. The majority of the information contained in the Integrated Transmission Plan that we consider is needed to satisfy the purpose of information disclosure is not a requirement of the determination, eg, asset management plans, forecast expenditure.<sup>12</sup>
  - 3.16.2 The annual compliance information requirements in the IPP determination includes information such as Transpower's annual revenue 'wash-ups' which are relevant to assessing whether the Part 4 purpose is being met.<sup>13</sup> Although the IPP determination is reset every 4-5 years, we consider the information requirements will be enduring, and therefore it is not necessary to duplicate reporting requirements under information disclosure.
  - 3.16.3 Certain system operator information relating to quality performance is publicly disclosed as required by the Electricity Industry Participation Code.<sup>14</sup> The disclosure requirements for the system operator therefore relate to financial performance, expenditure and revenue.

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<sup>11</sup> These requirements are superseded by the requirements contained in the determination.

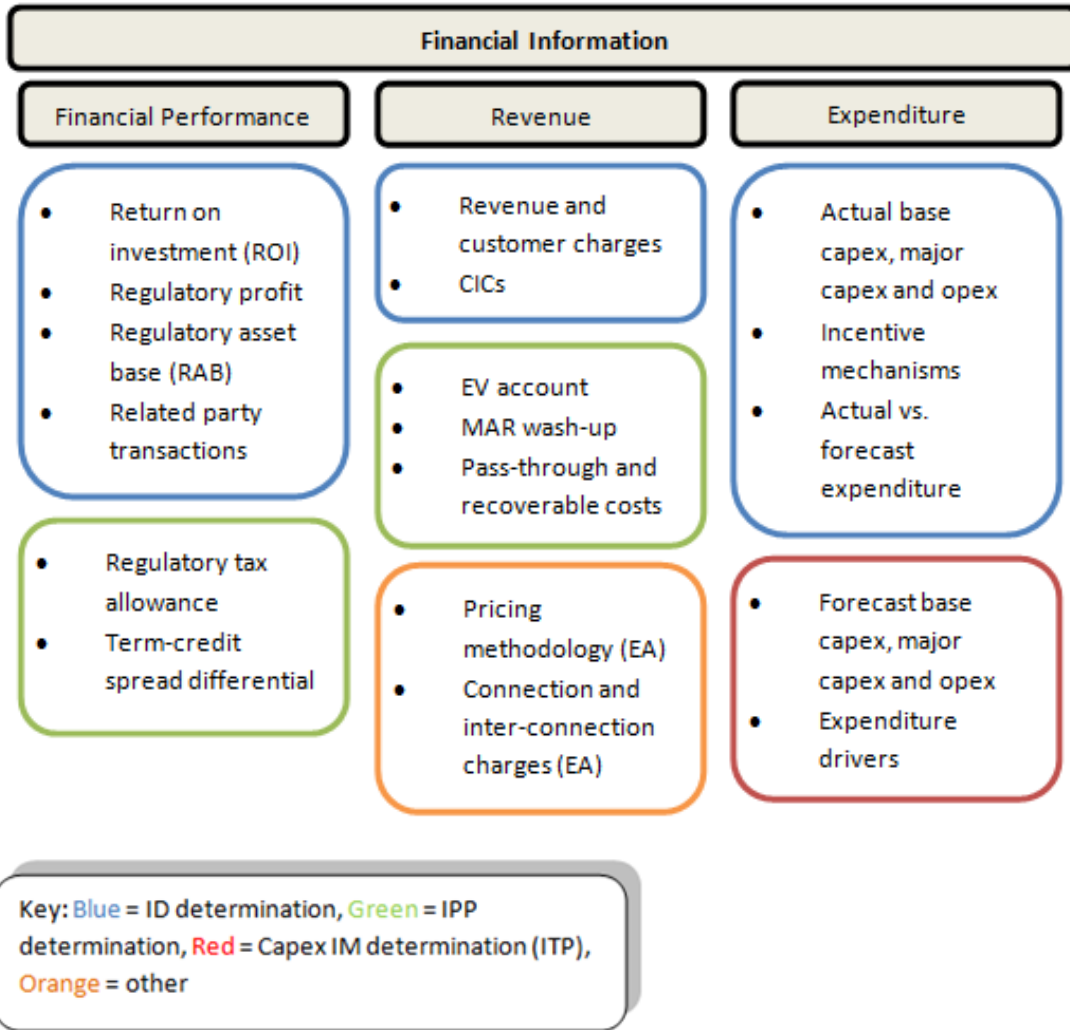
<sup>12</sup> For Transpower's current Integrated Transmission Plan see <https://www.transpower.co.nz/about-us/industry-information/rcp2-submission-and-its>

<sup>13</sup> For current IPP compliance disclosures see Transpower's 2012/13 Annual Regulatory Report at <https://www.transpower.co.nz/resources/annual-regulatory-report-201213>

<sup>14</sup> See system operator monthly performance reports at: <http://www.ea.govt.nz/industry/psocg/system-operations/system-operator-reports/system-operator-monthly-reports/>

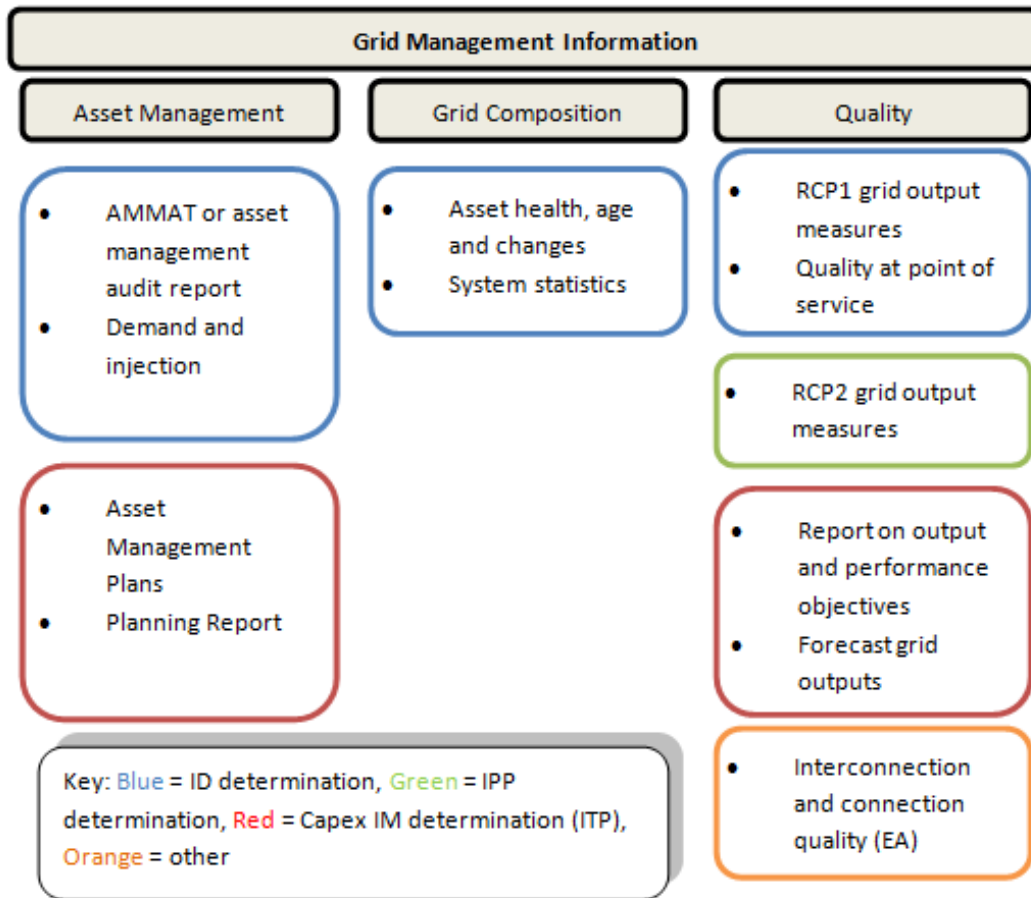
3.17 Figures 3.1 and 3.2 show the sources of Transpower’s information reporting requirements for financial and grid management information. They show the information requirements Transpower is currently subject to from the compliance information requirements in the IPP determination, the Integrated Transmission Plan requirements in the Capex IM, other requirements (eg, from the Electricity Authority), as well as the requirements contained in the determination.<sup>15</sup>

**Figure 3.1 Sources of financial information disclosures**



<sup>15</sup> We intend to revisit Transpower’s information reporting framework in the future with the aim of further rationalising the requirements.

**Figure 3.2 Sources of grid management information disclosures**



- 3.18 The financial information requirements relating to electricity lines services (excluding the system operator) that are included in the determination are discussed in Chapter 4, the grid management information requirements are discussed in Chapter 5.
- 3.19 The system operator is currently required to report on its quality performance by the Electricity Authority. The determination therefore requires only financial disclosures. System operator disclosures are detailed in Chapter 6.
- 3.20 In its submission on the draft requirements, Transpower raised concerns that we had not adequately addressed the distinction between how information disclosure is applied to a supplier subject to IPP regulation and one subject to default/customised price-quality regulation.<sup>16</sup>
- 3.21 As a result of completing further analysis on the issue, we consider we have made changes in the final requirements that address this concern. For example, some

<sup>16</sup> Transpower New Zealand Limited, "Information Disclosure: Reasons paper, determination and spreadsheet" (19 December 2013), p. 5.

information that was included in the draft requirements will form part of the annual compliance information reporting of the IPP determination.

### **Encouraging Transpower to continue to innovate with its reporting**

- 3.22 Transpower is currently required to provide information under Part 4 of the Act, and in response to its other regulatory obligations. Transpower has been innovative in how this information is presented improving the ease with which interested persons can understand how Transpower is operating. One particular innovation has been the development of the Annual Regulatory Report to meet the compliance requirements of the IPP determination and information gathering notices.
- 3.23 To encourage continued innovation, we:
- 3.23.1 have given Transpower some flexibility in how it reports information, and
  - 3.23.2 support the use of different media to make information more accessible.

#### *We have given Transpower some flexibility in how it reports information*

- 3.24 We have given Transpower some flexibility by not requiring information to be published in the exact form as laid out in the schedules of the information disclosure determination. However, all information contained within the schedules must be disclosed by Transpower in a format capable of copy and paste functions being applied to it.
- 3.25 We have also allowed for certain information to be disclosed in the body of the Annual Regulatory Report, rather than in a schedule. This includes ROI and regulatory profit. We consider this flexibility provides Transpower with the opportunity to better explain its performance and also makes the information more accessible to interested persons.
- 3.26 We expect that these disclosures will be consistent from year to year so that changes in performance are clear. However, if we consider that the form of disclosure is hampering this comparison, we may more tightly prescribe the form of disclosures.
- 3.27 In addition, Transpower can apply for an exemption from or modification to a requirement where it considers the alternative better promotes understanding of whether the purpose of Part 4 is being met.

#### *Disclosure of information via a web portal*

- 3.28 Transpower submitted that a cost-effective way of ensuring all disclosed information is accessible would be through a web based portal on the Transpower website. This portal would include all documents published by Transpower with information value to interested persons.
- 3.29 We support the use of different media, such as a web portal, to make information more accessible, but this is not an information disclosure requirement.

### **Information to be contained in the Annual Regulatory Report**

- 3.30 The Annual Regulatory Report will include all financial information disclosures except for revenue information which will be published as a standalone disclosure. The Annual Regulatory Report will also include certain annual grid management disclosures such as system statistics and quality, as well as system operator disclosures.
- 3.31 This information will be contained as either narrative in the body of the Annual Regulatory Report or as a companion to it. For example, disclosure of the ROI will be in the body of the Annual Regulatory Report, not in a companion schedule, along with any variances of the ROI from Transpower's weighted average cost of capital (WACC) as determined by the Commission. However, due to the nature of information required by Schedule F2: Operating Expenditure, this information will be published as a companion to the Annual Regulatory Report with variance analysis included in the body of the report.
- 3.32 For the format of each disclosure please see Chapters 4, 5 and 6.
- 3.33 The Annual Regulatory Report currently includes information we have required Transpower to disclose by information gathering notices we have issued.<sup>17</sup> The determination will take the place of these notices when it comes into effect in the 2015 disclosure year.
- 3.34 Transpower has also previously included voluntary disclosures and narrative in the Annual Regulatory Report to better explain its performance and to make it more accessible to users. We welcome this innovation and intend for Transpower to continue with this practise.

### **Information to be contained in the Integrated Transmission Plan**

- 3.35 The Capex IM requires Transpower to publicly disclose an Integrated Transmission Plan with its expenditure proposals for the next regulatory period, every five years.<sup>18</sup> These proposals are evaluated in conjunction with the Integrated Transmission Plan and expenditure allowances are set for the upcoming regulatory period. Transpower must then publish an updated Integrated Transmission Plan every year of the regulatory period until the next expenditure proposal.
- 3.36 The Integrated Transmission Plan is the report in which Transpower provides its long-term plans and objectives for operating the grid. The nature of this information therefore matches with several information disclosure requirements.

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<sup>17</sup> Information gathering notices are issued under s 53ZD of the Act.

<sup>18</sup> A regulatory period typically lasts for five years.

- 3.37 We have developed requirements that leverage off the Integrated Transmission Plan. These requirements are intended to provide interested persons with information to assess how Transpower is progressing in terms of asset management during the regulatory period: For example, how Transpower is performing against performance improvement initiatives. It also provides information on how Transpower is managing its assets such as asset health information and asset management maturity.
- 3.38 After we published our draft requirements, Transpower submitted that a useful way to disclose certain information would be in a 'mid-period' report. This report would provide Transpower the opportunity to update interested persons on how Transpower is progressing.
- 3.39 We agree that a report of this nature would be useful and have sought to leverage off Transpower's existing reporting requirements to make reporting more cost-effective. We have determined that the most cost-effective method would be to disclose the information twice per regulatory period by way of publication with Transpower's Integrated Transmission Plan as this is the report which is intended to provide Transpower's long-term vision for operating the grid.
- 3.40 The Integrated Transmission Plan which is published evenly between expenditure proposals will contain the additional information disclosure material. The Integrated Transmission Plan published with the expenditure proposal will also include additional information disclosures.
- 3.41 Chapter 5 details the grid management information that will be included as an additional information disclosure to the Integrated Transmission Plan.

#### **Separate disclosure of certain information**

- 3.42 Revenue information and customer charges for the coming pricing year are not able to be calculated by the time the annual information is required to be disclosed. This is due to the nature of Transpower's IPP.
- 3.43 As a result, revenue information (Schedule F6) will be disclosed separately from the other information and not included in an existing report. Information for the coming pricing year will be published by the last working day of December.
- 3.44 The interconnection quality schedule (Schedule G5) will be disclosed annually with the Interconnection Asset Report published by 30<sup>th</sup> November each year. Again this requirement is due to the timing of the data for the disclosure being available.
- 3.45 Schedule G3 which requires the disclosure of grid demand and capacity will be published annually as a companion to the Annual Planning Report. The Annual Planning Report is itself required to be published with the Integrated Transmission Plan. We have concluded that this disclosure will be more useful as a companion to this the Annual Planning Report rather than as a companion to the Annual Regulatory Report.



### When Transpower must disclose different types of information

- 3.46 All annually disclosed information must be published by the Friday of the third complete week of the month of October following the end of each disclosure year ending 30 June. This date provides Transpower with sufficient time after the end of the disclosure year to comply with the information disclosure requirements, and its IPP compliance reporting requirements.
- 3.47 The publication dates for information that will be published in the Integrated Transmission Plan and expenditure proposals are included in the Capex IM. For the Integrated Transmission Plan this is the last working day of September each year, and for the Integrated Transmission Plan prior to the beginning of the regulatory period, this is the first working day of December.<sup>19</sup>
- 3.48 The 'mid-point' Integrated Transmission Plan is published after the first year of a regulatory period. For example, Transpower submitted its RCP2 expenditure proposal in December 2013 for the five year regulatory period beginning 1 July 2015. The next expenditure proposal will be submitted in December 2018 for the regulatory period beginning 1 July 2020. The 'mid-point' Integrated Transmission Plan is the one to be published in 2016.
- 3.49 Table 3.1 below outlines the timing and frequency of the disclosures.

**Table 3.1 Timing and frequency of disclosures**

Requirement	Timing	Frequency and disclosure
Financial information (except revenue information), system operator, quality grid outputs, circuits	The Friday of the third complete week of the month of October following the end of each disclosure year	Annually – Published in the Annual Regulatory Report and as companions to the Annual Regulatory Report
Asset age, asset health, asset management information, update on performance against improvement initiatives, changes in policies	The timing of the Integrated Transmission Plan – December for the Integrated Transmission Plan published with expenditure proposals, September for the 'mid-period' Integrated Transmission Plan	Twice per regulatory period – published in the Integrated Transmission Plan and as companions to the Integrated Transmission Plan

<sup>19</sup> See *Re Transpower Capital Expenditure Input Methodology Determination* [2012] NZCC 2, clauses 2.1.1(1) & 3.1.1(1).

Requirement	Timing	Frequency and disclosure
Revenue information	By the last working day of December following the end of each disclosure year	Annually – standalone disclosure
Interconnection quality	When the Interconnection Asset Report is published (as determined in Part 12 of the Electricity Industry Participation Code 2010) by 30 <sup>th</sup> November each year	Annually – as a companion to the Interconnection Asset Report
Grid capacity and demand	With the Integrated Transmission Plan - see timing above	Annually – as a companion to the Annual Planning Report – itself part of the Integrated Transmission Plan

### **Transpower first needs to disclose information for the 2015 disclosure year**

- 3.50 Transpower will be required to make its first annual disclosure for the year ending 30 June 2015, the 2015 disclosure year. This provides Transpower with sufficient time to ensure the systems are in place to be able to comply with the disclosure requirements.
- 3.51 The first Integrated Transmission Plan which will contain additional information disclosures will be the Integrated Transmission Plan published by 30 September 2016.

## 4. Disclosure of financial information

### Purpose of this chapter

- 4.1 This chapter describes the financial information that Transpower is required to disclose for electricity lines services (excluding the system operator) and provides our reasons for requiring specific components of this information.

### Overview of decisions

- 4.2 The financial information required to be disclosed can be separated into three categories:
- 4.2.1 financial performance
  - 4.2.2 revenue
  - 4.2.3 expenditure information.
- 4.3 With the exception of information on its revenue, Transpower will disclose this information annually in the Annual Regulatory Report. Table 4.1 provides an overview of this information.

**Table 4.1 Overview of financial information required by the determination**

Category of information	Reference	Where disclosed	Frequency of disclosure
<b>Information on financial performance</b>			
ROI and comparison of ROI to WACC	Clauses 8.6-8.10.3 of the determination	Body of the Annual Regulatory Report	Annual
Regulatory profit	Clauses 8.11-13 of the determination	Body of the Annual Regulatory Report	Annual
RAB	Schedule F1	Companion to Annual Regulatory Report	Annual
Related party transactions	Clauses 8.21-8.21.5 and 17-19.3 of the determination	Body of the Annual Regulatory Report	Annual
<b>Information on revenue</b>			
Revenue and customer charges	Schedule F6	Published separately on Transpower's website	Annual
Customer Investment Contracts (CICs)	Clauses 10 – 10.6 of the determination	Body of the Annual Regulatory Report	Annual

Category of information	Reference	Where disclosed	Frequency of disclosure
<b>Information on expenditure</b>			
Operating expenditure	Schedule F2 and clause 8.14 of the determination	Companion to the Annual Regulatory Report	Annual
Base capital expenditure	Schedule F3 and clauses 8.4– 8.18 of the determination	Companion to the Annual Regulatory Report, incentive mechanism outcomes and narrative in body of the Annual Regulatory Report	Annual
Actual vs. forecast expenditure	Schedule F4	Companion to the Annual Regulatory Report, qualitative variance analysis in body of the Annual Regulatory Report	Annual
Major capital expenditure projects	Schedule F5 clauses 8.19 – 8.20.12 of the determination	Companion to the Annual Regulatory Report, incentive mechanism outcomes and narrative in body of the Annual Regulatory Report	Annual

### Financial performance information

4.4 Financial performance information includes:

- 4.4.1 the ROI,
- 4.4.2 regulatory profit,
- 4.4.3 the RAB, and
- 4.4.4 related party transactions.

### *Return on investment*

4.5 The calculation of the ROI is set out in Attachment D. The ROI will be calculated net of the effect of the ‘wash-up’ mechanism contained in Transpower’s IPP. If Transpower over-recovers in a given year, the wash-up mechanism ensures Transpower returns this revenue to consumers in the next pricing year.

- 4.6 We have introduced cash-flow timing assumptions for the calculation of the ROI that more accurately reflect when Transpower receives and pays cash than the building blocks used to calculate Transpower's allowed revenue. When Transpower's price-quality path is re-determined in late 2014, we expect that Transpower's allowed revenues will also be calculated using these timing assumptions. Attachment D also outlines the rationale for these timing assumptions.
- 4.7 Transpower will be required to compare its ROI to the WACC as determined by the Commission each year for information disclosure purposes.<sup>20</sup> This will be done for both the mid-point and 75<sup>th</sup> percentile estimates of WACC.
- 4.8 Transpower will also be required to compare the ROI to the WACC used to determine Transpower's IPP for the regulatory period. This will allow confirmation that Transpower, over a period of years, is earning a return consistent with its IPP and that this form of regulation is achieving its purpose.
- 4.9 From year to year the ROI will be higher or lower than the IPP WACC due to the effect of incentive mechanisms. In the long run any difference between the ROI and WACC may be explained by any rewards or penalties Transpower receives from the suite of incentive mechanisms that apply.
- 4.10 The ROI will be disclosed in Transpower's Annual Regulatory Report and not in the form of a companion schedule. This approach allows Transpower flexibility in explaining its financial performance to interested persons and will allow it to, for example, explain the amount of return above the WACC caused by incentive mechanisms.
- 4.11 Two important determinants of the ROI are regulatory profit and the value of the RAB. Disclosure of this information enables the cause of changes in the ROI to be identified.

#### *Regulatory profit*

- 4.12 Our approach for calculating regulatory profit is consistent with that for electricity distribution businesses. However, we have made a number of modifications to take account of Transpower's operations, structure as an electricity transmission provider, and regulatory regime, including allowing for the 'wash-up' mechanism in the calculation.
- 4.13 Regulatory profit calculates the amount of profit Transpower has earned from regulated lines services (excluding system operator functions) during the disclosure year.

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<sup>20</sup> *Transpower Input Methodologies Determination [2012] NZCC 17, Part 2, Subpart 4.*

- 4.14 Attachment E explains the calculation of regulatory profit.

*The regulatory asset base*

- 4.15 The RAB is the asset base from which Transpower's return on capital and depreciation is calculated. It directly determines the maximum amount of revenue Transpower is allowed to earn in a given pricing year. Its makeup and how it is rolled forward is therefore of crucial importance for interested persons.
- 4.16 The RAB is calculated and rolled forward in accordance with Transpower's asset valuation input methodology (IM).<sup>21</sup> The RAB schedule reflects these IMs and requires both disclosures of commissioned assets, depreciation, disposals and lost and found assets.
- 4.17 The RAB is disaggregated by major asset categories to provide transparency as to the composition of Transpower's RAB. Transpower will disclose RAB information by way of a companion to the Annual Regulatory Report due to the nature of the information.

*Related party transactions*

- 4.18 The purpose of related party transaction disclosures is to provide transparency surrounding Transpower's transaction with related parties eg, to its captive insurer. It also helps ensure that there is no cross-subsidisation amongst related parties.
- 4.19 We have developed requirements around the disclosure of related party transactions. For the purpose of information disclosure, related parties are any business units of Transpower that supply services other than electricity lines.
- 4.20 As Transpower is a State Owned Enterprise, the GAAP treatment of related party transactions requires disclosure of any transactions Transpower has with other Government-related entities (including the Inland Revenue Department, Meridian Energy etc.). The current definition of related party in the Transpower IMs refers the GAAP treatment. However, we do not consider that information on transactions with other Government-related entities is necessary in light of the purpose of information disclosure.
- 4.21 We intend to amend the definition of related party in the Transpower IMs determination to remove Government-related entities as related parties. Should the IM definition of a related party not be amended before Transpower discloses information in accordance with the determination, an exemption from reporting transaction with Government-related entities will be given to Transpower.
- 4.22 Related party transactions must be valued based on, or linked to, specified objective and verifiable information. The terms (especially price) and conditions

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<sup>21</sup> *Transpower Input Methodologies Determination [2012] NZCC 17, Part 2, Subpart 2.*

agreed between the related parties can influence the information disclosed by the regulated entity, which can in turn hinder interested persons' ability to assess profitability.

- 4.23 For this reason, different considerations apply to the disclosure of related party transactions, as compared to other transaction values, so it can be clearly demonstrated that the transaction prices approximate what could be expected in arm's length transactions. As a result, the disclosed transaction value may differ from the actual transaction value.
- 4.24 When a regulated entity undertakes transactions with a related party, interested persons need to understand whether and how the information which has been disclosed may be affected by related party dealings. In particular, interested persons should have information which discloses:
- 4.24.1 the existence and extent of related party transactions
  - 4.24.2 what the related party transactions relates to
  - 4.24.3 whether the price is the same or similar to the price which would be expected in an equivalent arm's length transaction (and if not, what adjustment is required to make it similar to an arm's length price)
  - 4.24.4 whether the price is based on objective, verifiable, information.
- 4.25 Of these issues, establishing whether the price is equivalent to an arm's length price is the most difficult. There are two broad approaches to this issue.
- 4.25.1 Firstly, Transpower could demonstrate that the relationship between the parties has not affected the terms of the transaction, eg, price has been determined on a demonstrably arm's length basis.
  - 4.25.2 Secondly, if the price cannot be shown to reflect an arm's length price, sufficient information could be disclosed so interested persons know the size of the impact from the parties' status as related parties, enabling them to make an adjustment to offset this impact and to approximate a price which is representative of an arms' length transaction.
- 4.26 There was considerable discussion around what is the most appropriate way of establishing what a reasonable arm length price is during the consultation on the electricity distribution businesses information disclosure determination. The

outcome we have determined is that there are a number of methods that can be used.<sup>22</sup>

- 4.27 As it is anticipated that there will be a reasonably small number of transactions for relatively small values compared to Transpower's revenue, Transpower can decide on the form of verification that it will use for establishing that the price in a related party transaction is equivalent to an arms' length price. Related party transactions will be disclosed in the body of the Annual Regulatory Report.

### Revenue information

- 4.28 Transpower receives income from several sources. For Transpower's operations as grid owner and operator the two main sources are:<sup>23</sup>
- 4.28.1 charges for the provision of transmission services
- 4.28.2 Customer Investment Contracts.

### *Charges for the provision of transmission services*

- 4.29 Revenue and customer charges disclosures provide information to interested persons on the total income Transpower receives for operating the grid, and the transmission charges at connection points. Disclosure of customer charges enables comparison of Transpower's charges for different customer groups, eg, between HVAC and HVDC customers.
- 4.30 The aim of customer charges disclosures is to increase transparency around how Transpower allocates its revenue requirement, building on disclosures Transpower is required to make by the Electricity Authority. Due to the fact that Transpower is already required to disclose the TPM under the Electricity Industry Participation Code, the requirements do not require pricing methodology disclosure.
- 4.31 In its submission on the revised draft determination, Vector voiced concerns that both the content and timing of the revenue disclosure did not meet their business needs.<sup>24</sup> We have reviewed Vector's concerns and have concluded that there has been a misunderstanding about the purpose of information disclosure and how it relates to information provided by Transpower to its customers.
- 4.32 Information disclosure is about providing transparency of information, for all interested parties, and is independent of any information flows between

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<sup>22</sup> Commerce Commission "*Information Disclosure Requirements for Electricity Distribution Businesses and Gas Pipeline Businesses: Final Reasons Paper*", p. 42.

<sup>23</sup> System operator revenue is discussed in chapter 6.

<sup>24</sup> Vector Limited, "*Submission to the Commerce Commission on the Revised Draft Transpower Information Disclosure Requirements*" (14 February 2014), p. 2.



Transpower and its customers for business purposes. The revenue and customer charges requirements are not intended to replace either the content or alter timing of any information provided by Transpower to its customers. The issues raised by Vector have been discussed with Transpower, and it has confirmed that it does not contemplate any change to the existing process as a result of the introduction of the requirements.

- 4.33 Transpower is required to disclose the connection charges, interconnection charges, non-TPM charges, and total charges for each connection point where suppliers of electricity lines services are either directly connected or indirectly connected to the grid. For avoidance of doubt, if a supplier of electricity lines service is connected behind a generator or direct connect customer then the charges to the generator or direct connect at that point of service must be disclosed.
- 4.34 In its submission, Transpower questioned whether the generator and direct connect customer's charges needed to be disclosed.<sup>25</sup> Only the charges that are allocated to suppliers of electricity lines services have to be disclosed as in the majority of cases the charges that the generators and direct connects pay are not passed through directly to suppliers of electricity lines services.
- 4.35 However, there are a small number of suppliers of electricity lines services that are connected behind the generator connection points, so a blanket exclusion of the disclosure of the generator and direct connect customer's charges is not acceptable. In these cases, the charges at the point of service for the generator or direct connect customer must be disclosed. The name of the supplier of electricity lines services and the generator or direct connect customer must also be disclosed.
- 4.36 Where there are multiple customers at a connection point the charges will need to be listed separately by customer.

#### *Disclosures of CIC charges*

- 4.37 Transpower provides assets and services to connected parties for new connections or to improve an existing connection. These are funded by via individual CICs.
- 4.38 CIC disclosures apply to new CICs entered into by Transpower in the disclosure year. The connection charges for each exit/injection point must include all charges to connected parties, including connection investments contract charges.
- 4.39 During technical discussions with Transpower after its submission, an issue was raised about the disclosure of investment contract charges such as those for CICs. The services supplied under these connection contracts may be considered by

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<sup>25</sup> Transpower New Zealand Limited, "Information Disclosure: Reasons paper, determination and spreadsheet" (19 December 2013), p. 45.

some parties to be unregulated, as any party can supply the service, and not just Transpower. As the charges still flow through to the end customers, we have determined that for transparency, all charges should be disclosed irrespective of whether they are TPM charges or not.<sup>26</sup>

### **Expenditure information**

4.40 Expenditure information comprises:

- 4.40.1 opex,
- 4.40.2 base capex, and
- 4.40.3 major capex.

#### *Opex*

- 4.41 Transpower is required to disclose information on its opex in the disclosure year, disaggregated by type of expenditure (for example, business support). The disaggregation of opex provides transparency on where Transpower has incurred expenditure and where it expects to incur expenditure in the future.
- 4.42 Transpower is not required to disclose its forecast of operating expenditure due to this being a requirement of the Integrated Transmission Plan.
- 4.43 Transpower will also provide an analysis of the difference between actual and forecast expenditure in the disclosure year. The disclosure of variance analysis for opex helps interested persons compare planned expenditure with actual outcomes and to understand the reasons for any differences.

#### *Base capex*

- 4.44 The Capex IM reasons paper includes annual information requirements for base capex which are to be included in an information disclosure determination or an information gathering notice. These are set out in Attachment F. We have incorporated these requirements into the determination to avoid the need to use information gathering notices for base capex information.
- 4.45 As with opex, Transpower will be required to disclose reasons for actual base capex varying from forecast.
- 4.46 The determination also requires Transpower to calculate any revenue adjustments that result from the base capex and grid output incentive mechanisms in schedule B3 of the Capex IM as outlined in Attachment F. These revenue adjustments take

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<sup>26</sup> In the event that CICs were not considered to be electricity lines services under the Act, s 53D(3) of the Act allows an information disclosure determination to request details of non-regulated services supplied by a regulated supplier.

effect through Transpower's economic value account as specified in the IPP determination to be determined later in 2014.

- 4.47 Disclosure of Transpower's calculations of these adjustments was not included in the draft requirements. We have since reviewed the form of disclosure between information disclosure, compliance assessment under the IPP determination, and information gathering notices we issue and determined that information disclosure is the best source of this information although it strongly interrelates with IPP compliance assessment. Including these disclosures in information disclosure also reduces the need for information gathering notices to be issued and the associated costs of this.

#### *Major capex*

- 4.48 We have previously required the disclosure of major capex information by way of information gathering notices. We have incorporated these requirements into the determination to avoid the need to issue information gathering notices to Transpower.
- 4.49 The major capex information requirements formerly included in information gathering notices are outlined in Attachment F.
- 4.50 In addition to the above, the major capex schedule requires disclosure of forecast and actual expenditure for major capex projects that are approved but not yet fully commissioned. This disclosure provides information on the progress Transpower is making on each project and how this varies from forecast expenditure.
- 4.51 As with base capex, there are a number of incentive mechanisms included in the determination that interact strongly with IPP compliance. We have concluded that information disclosure is the best source of this information reporting. The major capex incentive mechanisms are outlined in Attachment F.

## 5. Disclosure of grid management information

### Purpose of this chapter

- 5.1 This chapter summarises our requirements for the disclosure of grid management information and the reasons for specific components of these requirements. Grid management information includes:
- 5.1.1 information on quality
  - 5.1.2 information on asset management
  - 5.1.3 information on the composition of the grid.

### Overview of decisions

- 5.2 Transpower will disclose grid management information in both the Annual Regulatory Report and the Integrated Transmission Plan. Table 5.1 provides an overview of our decisions.

**Table 5.1 Overview of grid management information required by the determination**

Category of information	Reference	Where disclosed	Frequency of disclosure
<b>Information on quality performance</b>			
Quality grid outputs	Schedule G4	Companion to the Annual Regulatory Report	Annual
Quality interconnection	Schedule G5	Published separately in the Interconnection Asset Report	Annual
<b>Information on asset management</b>			
Grid demand and injections	Schedule G2	Companion to the Annual Regulatory Report	Annual
GXP capacity and demand	Schedule G3	Companion to Annual Planning Report (included in the Integrated Transmission Plan)	Annual
Asset management maturity assessment tool (AMMAT)	Schedules G7,8	Published with the Integrated Transmission Plan	Twice per regulatory period
Additional grid management information used to assess Transpower's progress and performance	Clauses 13.4 – 13.6 of the determination	Published with the Integrated Transmission Plan	Twice per regulatory period

Category of information	Reference	Where disclosed	Frequency of disclosure
<b>Information on grid composition</b>			
System statistics	Schedule G1	Companion to the Annual Regulatory Report	Annual
Asset age, health and changes	Schedule G6	Published with the Integrated Transmission Plan	Twice per regulatory period

### Information on quality performance

- 5.3 Transpower proposed a suite of quality measures for the next regulatory period (RCP2 - from 1 April 2015 to 31 March 2020). These are different to the measures contained in the IPP determination for RCP1 (from 1 April 2011 to 31 March 15).<sup>27</sup>
- 5.4 Disclosure of the RCP2 quality measures will be done by way of IPP compliance to assess Transpower's performance against targets set in the IPP determination. It is not therefore a requirement of the information disclosure determination.
- 5.5 The determination requires continuing disclosure of the quality measures that Transpower currently reports on.<sup>28</sup> Disclosure of these measures will provide a consistent time-series data set that interested persons will be able to use to determine trends in Transpower's performance with regard to quality.
- 5.6 In the draft requirements, the following performance measures were included:
- 5.6.1 the number of momentary outages
  - 5.6.2 the percentage of momentary outages caused by lightning
  - 5.6.3 the percentage of unplanned interruptions that result in a complaint being made per grid exit point.
- 5.7 Transpower submitted that all three of the measures should be removed from the schedules.
- 5.8 The first item, the number of momentary outages is one of a number of new performance measures that have been proposed in Transpower's RCP2 submission.

<sup>27</sup> We are separately consulting on grid output measures that will form part of Transpower's price-quality path for 2015-20. We expect to publish a draft decision by 16 May 2014.

<sup>28</sup> *Commerce Act (Transpower Individual Price-Quality Path) Determination [2010]* Decision No. 714, clause 4.1.

This measure will consequently be included as a compliance reporting requirement in the IPP determination for RCP2.

- 5.9 The second measure was removed as interruptions caused by lightning are included in the environment data in Schedule G4 (iii): Unplanned Interruption Causes. It is expected that Transpower will examine trends in interruptions caused by lightning as part of their performance monitoring.
- 5.10 Transpower submitted that reporting on customer complaints, especially end users would be difficult as the interactions with the end users is via the electricity distribution businesses. This measure has been removed, but there may be some other customer measures added to the requirements in the future.
- 5.11 Transpower already discloses various quality measures by point of service and for interconnection assets. The inclusion of this information in the requirements ensures Transpower continues to disclose this information in a consistent format. We view this quality information as important as it provides information for specific customers of Transpower.
- 5.12 The report on output and performance objectives, as required by the Integrated Transmission Plan, provides interested persons with a longer term view of grid outputs and how Transpower's investment is likely to impact quality and performance. We consider this longer term information to be vital in providing information to interested persons, though as it is already disclosed, the determination does not require this disclosure.

### **Information about asset management**

- 5.13 The requirements of the Integrated Transmission Plan satisfy a significant proportion of asset management information that interested persons require to assess how Transpower intends to manage its assets.
- 5.14 Demand and capacity information has been included in the requirements so that this information is submitted in a standardised format and is sufficiently disaggregated. We are requiring this information to be disaggregated by point of service.

### *Disclosure of asset management maturity*

- 5.15 We have developed the AMMAT as a self-assessment tool to provide a measure of asset management maturity which aims to foster continuous improvement in asset management practices.<sup>29</sup> The AMMAT seeks to measure the maturity of a business's current asset management practices against key clauses of PAS 55 by

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<sup>29</sup> A full description of the AMMAT tool can be found at <http://www.comcom.govt.nz/dmsdocument/763>

adopting a subset of the Institute of Asset Management's PAS 55 Assessment Methodology (PAM). The AMMAT is currently in place for other regulated sectors.

- 5.16 Disclosure of the AMMAT enables more transparent disclosure of the maturity of the business's asset management practices against an objective standard, and provides a measure of the changes in maturity over time. This is a self-assessment tool and it is therefore accepted that there will be variability in the scoring across the different suppliers. However, as a primary aim is to foster continuous improvement, completing the surveys on a regular basis will provide trends for the suppliers so they can identify areas for further improvement.
- 5.17 In the draft requirements it was proposed that Transpower would complete the AMMAT. Transpower submitted that it should not be subject to the AMMAT as it has had independent asset management audits undertaken as part of its PAS 55 certification process.<sup>30</sup> It also stated that it wants to have flexibility to make changes to reporting in the future and that the audits cover everything that the PAM tool does but to a greater depth.
- 5.18 After reviewing reports for two PAS 55 external audits that were undertaken in April 2012 and November 2013 by Asset Management Consulting Limited we have concluded that Transpower will be able to fulfil the requirements of the AMMAT by disclosing its PAS 55 audit reports. This will reduce Transpower's compliance costs and provide information of a greater value to the information that the AMMAT provides.
- 5.19 Both audit reports contain a narrative and score for each audit area. The 2013 audit report includes both the 2013 and 2012 audit results and shows where there have been improvements in assessment areas between the 2012 and 2013 audits. The report narrative and the maturity scores together provide a very informative picture of Transpower's overall asset management maturity at a point in time.
- 5.20 The future Transpower asset management audit results are required to cover the same (and ideally additional) areas as the AMMAT schedule (Schedule G7). Over time, the content of the audit, the results of the audit, and the way the results are presented need to be sufficiently consistent to help interested persons understand trends in Transpower's asset management maturity. Transpower are still required to provide the numerical scores in data form.
- 5.21 Completing the AMMAT or an audit requires Transpower to identify references to its own documents that support the assessment of its maturity rating. This allows the possibility that we could commission an independent audit of the responses in the AMMAT disclosures or Transpower audits.

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<sup>30</sup> PAS 55 is the British Standards Institution's (BSI) publicly available specification for the optimised management of physical assets. See: <http://pas55.net/>

### Information about grid composition

- 5.22 Transpower is required to disclose information on the composition and health of the grid. For example, asset health. This information is required so that interested persons can assess whether Transpower is operating the grid efficiently and how the current state of the grid will affect future investment decisions and performance.
- 5.23 Asset health and age information (Schedule G1) will be reported twice per reset period with the Integrated Transmission Plan as described in Chapter 3.

### *Information required to obtain a view of long run expenditure*

- 5.24 The draft requirements included a provision for Transpower to disclose data on the value of its assets. The aim of this was to help interested persons to be able to ascertain when large amounts of expenditure would fall due in the future.
- 5.25 Transpower would have had difficulties providing the information, without a significant amount of extra work. This requirement has therefore been removed and has been replaced with a requirement to disclose estimated expenditure for 10 years plus for major asset portfolios where there is likely to be significant expenditure in the future.
- 5.26 Asset health is a key indicator of the present state of the grid and where expenditure is likely to be needed. Schedule G6 requires Transpower to disclose the health of its asset by repair, replacement or refurbishment priority measured in years. This is consistent with how asset health was presented in Transpower's RCP2 proposal document.
- 5.27 As a result of comments in Transpower's submission and subsequent technical discussions with Transpower, there have been a number of refinements to the asset health information including the addition of an asset health maturity factor that indicates what process has been used to generate the asset health rating.
- 5.28 The asset areas are sufficiently broken down by category to enable interested persons to ascertain whether particular classes of assets have a lower health rating, and therefore will require additional investment, relative to others.
- 5.29 Schedule G6 also includes information on corrosion zones and terrain that lines traverse. The provision of this information will assist interested persons understand the differences in the levels of maintenance, refurbishment, and replacement across the different areas of the grid and therefore what is driving expenditure on certain parts of the grid.
- 5.30 The draft schedules included a requirement to provide the length of transmission line where there was active vegetation control. Transpower submitted that the amount of vegetation control varied over time and obtaining a trend over time would be difficult.



- 5.31 Based on the information provided by Transpower, the disclosure of information on active vegetation control has been removed. However, there may be a case for including this information in the future if there is a significant increase in the amount of vegetation control required.
- 5.32 Schedule G1 and additional substation information has been added. This schedule shows a comparison of the high level grid statistics for both the current reporting year and the previous year for example, the length of line of a certain voltage. The information in the schedule will assist interested persons to understand the changes to the grid over time and what is driving expenditure.

## 6. Disclosure of system operator information

### Purpose of this chapter

- 6.1 This chapter summarises the information Transpower is required to disclose in relation to its system operator activities, and our reasons for requiring specific components of this information. System operator information includes:
- 6.1.1 financial performance information
  - 6.1.2 expenditure information
  - 6.1.3 revenue information

### Overview of decisions

- 6.2 Transpower will disclose system operator information in the Annual Regulatory Report. Table 6.1 provides an overview of our decisions.

**Table 6.1 Overview of system operator information**

Category of information	Reference	Where disclosed	Frequency
<b>Financial performance information</b>			
ROI	Schedule SO1	Companion to the Annual Regulatory Report	Annual
Regulatory profit	Schedule SO1	Companion to the Annual Regulatory Report	Annual
Fixed assets	Schedule SO1	Companion to the Annual Regulatory Report	Annual
<b>Expenditure information</b>			
Operating expenditure actual and forecast	Schedule SO1	Companion to the Annual Regulatory Report	Annual
Capital expenditure actual and forecast	Schedule SO1	Companion to the Annual Regulatory Report	Annual
<b>Revenue information</b>			
System Operator Service Provider Agreement (SOSPA) and Technical Services Advisory Contract (TASC) revenue	Schedule SO1	Companion to the Annual Regulatory Report	Annual

### Why interested persons need system operator information to assess performance

- 6.3 Transpower, in its capacity as system operator, manages the real time flow of electricity in the national grid. Transpower's system operator activities are regulated under Part 4 of the Act as they fall under the definition of electricity lines services.

- 6.4 Transpower's activities as system operator are provided through an arm's length contract with the Electricity Authority.
- 6.5 The disclosure of system operator information is useful for interested persons in assessing whether the contract with the Electricity Authority is producing outcomes consistent with those that would be observed in a workably competitive market and therefore that the purpose of Part 4 is being met.
- 6.6 Transpower has voiced concerns about its commercial position if there are competitors bidding for the work in the future. We agree that this could potentially be an issue in the future, but it is currently only a possibility. The requirements around system operator activities can be reviewed in the future if necessary.
- 6.7 Transpower is already required to disclose a large amount of information on the system operator's performance. The system operator is required to provide monthly performance reports which are published on Transpower's website. Consequently, the requirements do not include non-financial performance information.

### **Required disclosures on Transpower's system operator services**

#### *Financial performance*

- 6.8 A key indicator of financial performance is the ROI. We have used a mid-year timing assumption for all system operator cash-flows when calculating the system operator ROI. We consider that this is an appropriate assumption and will result in an accurate ROI.
- 6.9 To calculate the ROI, it is necessary to calculate regulatory profit. Therefore, Transpower is required to disclose information necessary to calculate the regulatory profit. This includes revenues, operating expenditure, tax and depreciation.
- 6.10 The profitability calculations for the system operator are in line with those of Transpower's transmission services. The key difference is that the system operator calculations do not need to incorporate the effect of the wash-up mechanism in the economic value (EV) account.
- 6.11 Schedule SO1 also requires disclosure of the roll-forward of the system operator's fixed asset base showing commissioned assets, depreciation, disposals, and lost and found assets.

#### *Expenditure*

- 6.12 Transpower is required to disclose actual and forecast opex and capex as well as variances of actual expenditure from forecast.

#### *Revenue*

- 6.13 Transpower is required to disclose actual and forecast system operator revenue for revenue it receives under the SOSPA and for technical advisory services.

- 6.14 Transpower submitted that consulting services that the system operator provides to the Electricity Authority under its Technical Advisory Services Contract (TASC) should be excluded because, unlike activities covered under the SOSPA, these are contestable services. We have reviewed this with Transpower and the Electricity Authority and determined that the nature of technical advisory services revenue is not distinct from SOSPA revenue. Consequently, Transpower will disclose technical advisory services revenue.

## Attachment A: The regulatory framework for Transpower and information disclosure

### Purpose of this attachment

- A1 This attachment sets out the regulatory framework under which we are setting information disclosure requirements for Transpower.

### Transpower is regulated under the Commerce Act

- A2 Transpower is the State Owned Enterprise responsible for electricity transmission services in New Zealand. It performs two main operations in the New Zealand electricity market. Firstly, as grid owner, it owns and operates the infrastructure which makes up the national grid. Secondly, as system operator, Transpower provides real time services to co-ordinate electricity generation, transmission and demand.
- A3 As a supplier of regulated services (services that face little or no competition), Transpower is subject to regulation from regulatory bodies including the Commerce Commission. Transpower is regulated by the Commission under Part 4 of the Act.
- A4 Under Part 4 of the Act Transpower is subject to information disclosure and price-quality path regulation.
- A5 Transpower's transmission operations are subject to IPP. This determination provides for the Commission to set Transpower's maximum allowable revenue (MAR), the maximum amount of revenue Transpower can earn in a given year from regulated transmission services.
- A6 The MAR is set using a building blocks approach meaning the revenue Transpower is allowed to earn in a pricing year is built up from its asset base, operating expenditure, tax, depreciation and return on capital.
- A7 Transpower's role as system operator is subject to information disclosure regulation, but is not currently subject to price-quality path regulation due to an arm's length contract between the Electricity Authority and Transpower. This contract was considered to promote outcomes consistent with a workably competitive market when the IPP determination was put in place.
- A8 The Act requires us to set input methodologies for regulated suppliers. Input methodologies provide the principles and rules that underpin our regulatory instruments and cover such things as asset valuation, cost allocation and taxation.

A9 IMs are in place for information disclosure and IPP,<sup>31</sup> as well as for capital expenditure.<sup>32</sup>

**We must determine information disclosure requirements for Transpower**

- A10 Transpower is subject to information disclosure for any regulated line services it supplies. This includes both transmission line services and system operator services.<sup>33</sup>
- A11 The purpose of information disclosure, as set out in s 53A of the Act, is to ensure that sufficient information is available to interested persons to allow them to assess whether Part 4 of the Act is being met.
- A12 The purpose of Part 4 is to promote the long-term benefit of consumers in markets where there is little or no competition such as the markets for transmission and system operator services where Transpower operates. This is to be done by promoting outcomes that are consistent with outcomes produced in competitive markets, such that Transpower:
- A12.1 has incentives to innovate and to invest, including in replacement, upgraded, and new assets,
  - A12.2 has incentives to improve efficiency and provide services at a quality that reflects consumer demands,
  - A12.3 shares with consumers the benefits of efficiency gains in the supply of the regulated goods or services, including through lower prices, and
  - A12.4 is limited in its ability to extract excessive profits.
- A13 To understand whether the relevant outcomes consistent with workably competitive markets are occurring, interested persons should have sufficient information to assess the actual performance of suppliers.
- A14 The Part 4 purpose highlights the importance of incentives: incentives to innovate and to invest (s 52A(1)(a)), and incentives to improve efficiency and provide services at a quality that reflects consumer demands (s 52A(1)(b)).
- A15 We consider that the practical test of whether incentives are working is whether suppliers are responding to those incentives. We therefore believe that interested persons can only assess whether these elements of the Part 4 purpose are being met

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<sup>31</sup> *Transpower Input Methodologies Determination [2012] NZCC 17.*

<sup>32</sup> *Re Transpower Capital Expenditure Input Methodologies Determination [2012] NZCC 2.*

<sup>33</sup> Electricity Industry Act 2010 s 150 (1)

by examining evidence of their performance—both historical performance and expected future performance.

- A16 Furthermore, the supply of regulated services is likely to be, and is intended to be, influenced by the relevant type of regulation.
- A17 Information disclosure improves transparency of suppliers' performance. The disclosure of information about performance can also encourage suppliers to improve their performance by allowing interested persons to highlight areas of weak and strong performance.
- A18 An effective information disclosure regime provides transparency to interested persons of the performance of regulated suppliers. This will then provide an on-going source of information so that trends can be identified and monitored over time, which will allow interested persons to assess whether the Part 4 purpose is being met.
- A19 In addition, the publication of summaries and analysis under s 53B(2)(b) can encourage Transpower to improve its performance by highlighting to interested persons (including Transpower) performance levels, relative performance, and trends in performance over time.

#### **Transpower's current requirements to disclose information**

- A20 Currently, the IPP determination, the Capex IM, and the *Electricity (Information Disclosure) Requirements 2004* prescribe annual information disclosure from Transpower. In addition, we issue information gathering notices to seek information used in setting and updating Transpower's MAR.
- A21 Under the existing *Electricity (Information Disclosure) Regulations 2004*, Transpower prepares and presents a set of audited regulatory financial statements with note disclosures. This is published as Transpower's Information for Disclosure report as a supplement to the NZ Gazette. The requirements to publish this disclosure will continue until the 2015 disclosure year when it will be superseded by the determination.
- A22 Under Part 5 of the IPP determination, Transpower is required to publish compliance information. This is used to monitor Transpower's compliance with its IPP. This information is also audited and is included in Transpower's Annual Regulatory Report.
- A23 The Capex IM requires Transpower to disclose information necessary to perform annual revenue adjustments as well as to publish asset management information and quality outcomes.
- A24 Transpower also supplies information in response to information gathering notices that we issue. Previous notices have been issued to determine Transpower's annual revenue updates.

- A25 See Attachment F for a full discussion on Transpower current information reporting requirements.
- A26 We have reviewed Transpower's current reporting requirements and have sought to avoid duplicating information in the determination.



## **Attachment B: We aim to ensure that the information disclosure requirements are cost-effective**

### **Purpose of this attachment**

- B1 This attachment sets how we have attempted to minimise the costs that Transpower faces from complying with the requirements.

### **Taking into account Transpower's existing practices and capabilities**

- B2 Where possible we have aligned the information disclosure requirements with Transpower's existing business practices and their existing capability, including by:
- B2.1 relying on existing information gathering practices and readily available data formats
  - B2.2 providing Transpower with flexibility, where appropriate, to present information in a manner which reflects how it manage its businesses
  - B2.3 allowing Transpower to disclose estimated values for some types of grid information, tagged with an accuracy assessment, eg, asset health information. As a result, Transpower will be able to make disclosures based on readily available information or estimates. This applies to information on the asset register, asset age profile, and asset condition.

### **Aligning with Transpower's other regulatory requirements**

- B3 Information disclosure is a specific form of regulation under Part 4, with its own clearly defined purpose, and is independent of other regulatory instruments. However, in determining the requirements we have been conscious that information disclosure is also part of a wider package of regulation under Part 4 and that Transpower is subject to other reporting requirements.
- B4 To promote the long-term interests of consumers, and maximise the cost-effectiveness of regulation under Part 4, we have sought to align the requirements with other parts of the Part 4 regulatory regime, where appropriate. For example, we have taken into account the information already required to be disclosed by other requirements and the format of these disclosures.

### **Requiring disaggregated information only where necessary**

- B5 We have carefully considered the appropriate level of disaggregation for the information required to be disclosed by Transpower.
- B6 We have based the requirements on the principle that disaggregated information should be required only where it is necessary to:
- B6.1 identify the drivers of expenditure

- B6.2 provide information which would not otherwise be disclosed on a significant sub-item
- B6.3 inform the assessment of Transpower's performance over time.
- B7 Disaggregation should be based, wherever possible, on a consistent hierarchy to ensure that disclosed information can be compared. We have endeavoured to achieve this objective by consistently breaking down assets into certain asset classes that Transpower uses.
- B8 We consider we have reached a pragmatic balance between the extent of disaggregated information interested persons need to answer the questions outlined in Chapter 2, and the costs to Transpower.

### **Limiting requirements to reduce compliance costs**

- B9 In addition, we have limited the compliance costs of information disclosure by requiring certain information less frequently than annually. For example, we have required certain information to be disclosed twice per regulatory period as we view the costs of requiring this to be completed annually significantly outweigh the benefits.

### **We have sought input from Transpower and other industry participants**

- B10 We have sought input from Transpower and other industry participants in developing the requirements to help us limit unnecessary additional cost, and enhance the usefulness of the information disclosed by Transpower. In developing those information disclosure requirements, we considered a vast amount of material provided by submitters during consultation.
- B11 We have also taken account of the information disclosure requirements that we have set for other regulated sectors.

### *Our process for seeking views on the requirements*

- B12 On 21 October 2013 we published our draft requirements. These draft requirements took account of Transpower's views on various matters, such as the form in which Transpower best meets its existing reporting obligations, and how certain measures are best calculated, eg, how ROI is calculated.
- B13 After publishing our draft requirements we received three submissions and two cross-submissions.<sup>34</sup> We considered the matters raised by submitters and completed further analysis. This included workshops with Transpower to determine the most

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<sup>34</sup> Submissions were received from Transpower, Meridian Energy and Contact Energy and cross-submissions from Transpower and Genesis. These submissions and cross-submissions can be found on our website at <http://www.comcom.govt.nz/regulated-industries/electricity/electricity-transmission/transpower-information-disclosure/>.

practical ways to supply information while meeting the purpose of information disclosure. These workshops were useful and have resulted in a number of changes to the information disclosure determination since the draft requirements.

- B14 On 7 February 2014 we published revised draft requirements, along with an update paper on the changes we had made to the draft requirements. The purpose of this was to receive technical feedback on the drafting of the requirements. After publishing the revised draft requirements we received two submissions, one from Vector and the other from Transpower. The submissions have been discussed with the respective parties and, where relevant, have been addressed in the determination and this paper.

## Attachment C: Assurance requirements

### Purpose of attachment

- C1 This attachment sets out the audit, certification and assurance requirements included in the determination.

### Our approach to verification

- C2 Section 53C(3) of the Act provides that an s 52P determination may require information to be verified by statutory declaration or audit. Under s 53C(3)(f) we may impose any other requirements that we consider necessary or desirable to promote the purpose of information disclosure regulation. We interpret this provision as enabling us to require other forms of verification, if doing so promotes the purpose of information disclosure.
- C3 Interested persons, including the Commission, need assurance that disclosed information has been prepared in accordance with the determination and the IMs, to have confidence in their assessments of whether the purpose of Part 4 is being met.
- C4 In setting the verification provisions we have sought to balance the need for assurance that the disclosed information complies with the requirements and the IMs, and the costs incurred in providing that assurance.
- C5 We are aware that providing assurance is costly and that the benefits of assurance need to be weighed against such costs. Consequently, we have endeavoured to have disclosures complement Transpower's existing reports to reduce assurance costs.

### Assurance provisions in the determination

- C6 Table C1 below summarises the provisions of the determination relating to verification of required disclosures.

**Table C1 Information disclosure determination - summary of assurance provisions**

Disclosure category	Determination reference	Assurance requirements
Financial information, and system operator information	Clauses 8 – 10.6, 14	Audited, and Director certified
Grid management information	Clauses 11-13.6	Director certified

- C7 In determining the appropriate level of assurance, we have considered the underlying characteristics of the information, the availability of records, the costs of

providing the various forms of assurance and the level of reliance placed on the information.

### **Information required to be director certified**

- C8 The determination requires disclosed information to be director certified. Directors must certify that, having made reasonable enquiry, to the best of their knowledge the information complies, in all material respects, with the relevant requirements. Director certificates must be signed by no fewer than two directors and attached to the disclosures when disclosure is made, including internet publication.
- C9 We have included the wording 'in all material respects' to the certification of disclosures by directors. This introduces a materiality threshold to the certification recognising that we are primarily concerned with material, not trivial, breaches. This approach is consistent with information disclosure determinations for other sectors.

### **Information subject to audit requirements**

- C10 The determination requires financial disclosures to be audited.
- C11 We have taken into account the standard of verification considered appropriate in each case when establishing audit requirements. Further, we understand that an auditor (as defined in the determination) would be qualified to complete all aspects of the audit engagement.

### **Form of audit reports**

- C12 The determination provides that:
- C12.1 the audit report contain a statement as to whether or not the disclosures comply with the requirements, and
  - C12.2 if the disclosures do not comply with the requirements, the audit report is to explain the respects in which the disclosure does not comply with the requirements.
- C13 We intend these provisions to be flexible enough to allow for changes in the New Zealand Auditing Standards and therefore avoid any conflicts which may arise should New Zealand Auditing Standards be amended.

### **Auditor qualifications**

- C14 The determination provides that the auditor is required to:
- C14.1 be qualified as an auditor of a company under the Companies Act 1993
  - C14.2 have no relationship that involves, or is likely to involve, a conflict of interest
  - C14.3 not have assisted with the compilation of the information or provided advice or opinions on the methodologies or processes used in compiling the information

- C14.4 not be associated with any person who has provided assistance, advice or opinions in preparing the disclosures.
- C15 We consider that the standards and guidance regarding auditor independence published by the Institute of Chartered Accountants (NZICA) also provides appropriate guidance relating to auditor independence.

## Attachment D: ROI calculation and cash-flow timing assumptions

### Purpose of this attachment

D1 This attachment outlines the calculation for the ROI, the cash-flow timing assumptions to apply to that calculation, and our reasoning for these.

### Overview of calculation

- D2 For interested persons to assess whether the Part 4 purpose is being met, an indicator of profitability is required. ROI is a commonly used measure of profitability which allows users of financial information to compare the relative performance of similar firms.
- D3 The ROI enables interested persons to assess Transpower's profitability relative to what an efficient firm would earn in a workably competitive market. The vanilla and post-tax ROI can also be compared to the vanilla and post-tax WACC used in determining the maximum amount of revenue Transpower can earn in a pricing year.
- D4 Revenue is actually received, and expenses are actually paid throughout the year. Consequently, assuming year-end timing of cash-flows results in a less accurate ROI measure. By incorporating intra-year timing assumptions, the ROI measure better reflects the time value of money and is more accurate.
- D5 Our intention is to include the modified cash-flow timing assumptions set out in this attachment in the building blocks model used to forecast Transpower's MAR in the IPP determination to ensure consistency between the two forms of regulation.
- D6 The effect of Transpower's EV account must also be allowed for in the calculation of ROI. Any movement in the EV account represents a cash-flow that will be reversed in a future period; it should therefore not affect the profitability assessment in for the current disclosure year.
- D7 Table D1 outlines the cash-flow timing assumptions used in the calculation of the ROI.

**Table D1 Cash-flow timing assumptions**

Cash-flow	Timing assumption
Revenue	Revenue earned in line with Transpower's pricing year and on standard industry terms ie. 20th of month following supply. For ROI calculated for the disclosure year, revenue earned on the 127 <sup>th</sup> day of the year on average
Operating expenditure	Evenly throughout the year, mid-year on average
Pass-through and recoverable costs	Evenly throughout the year, mid-year on average
Commissioned assets	Month of commissioning

Cash-flow	Timing assumption
Disposed assets	Evenly throughout the year, mid-year on average
Tax	Evenly throughout the year, mid-year on average
Term-credit spread differential	Evenly throughout the year, mid-year on average
EV account movement	Evenly throughout the year, mid-year on average

### Calculation of ROI

- D8 The most accurate assessment of return on an investment is a cash-based internal rate of return (IRR) calculation. The IRR is the discount rate that, when applied to a future stream of net cash-flows associated with an investment, equates the present value of those cash-flows to the initial cost of the investment.
- D9 By using a cash-based ROI, as opposed to an accounting based approach, a more accurate measure of performance is able to be calculated. Any accounting based approach is likely to be just an approximation of the IRR.
- D10 Over a single year, the IRR can be found by solving for the IRR term in the following expression:

$$\begin{aligned} & \textit{Asset Value at beginning of year} \\ &= \textit{Sum of Discounted Net Cash Flows during year} \\ & \quad + \textit{Discounted Asset Value at end of year} \end{aligned}$$

$$= \sum_i \frac{NCF_i}{(1 + IRR)^{p_i}} + \frac{AV_1}{1 + IRR}$$

where:

$IRR$  = internal rate of return

$NCF_i$  =  $i$ th net cash flows during the year

$p_i$  = proportion of year elapsed  $i$ th net cash flow

$AV_1$  = asset value at year-end.

- D11 From the above expression it is evident that economic returns can arise from:

D11.1 the present value of net cash-flows during the year, and/or



D11.2 capital gains or losses associated with the economic asset value at the end of the year, which in turn represents the present value of subsequently expected net cash-flows.<sup>35</sup>

D12 Incorporating the cash-flow timing assumptions identified above, Transpower's vanilla ROI can be calculated by solving for ROI in the formula below:

$$\begin{aligned}
 \text{opening RAB value} &= \frac{\text{revenue}}{(1 + ROI_v)^{127/365}} \\
 &- \sum VCA \\
 &- \frac{\text{operating expenditure} + \text{pass-through costs} + \text{recoverable costs}}{(1 + ROI_v)^{182/365}} \\
 &- \frac{\text{regulatory tax allowance} - \text{disposed asset proceeds} + \text{TCS D}}{(1 + ROI_v)^{182/365}} \\
 &+ \frac{\text{other regulated income}}{(1 + ROI_v)^{182/365}} \\
 &+ \frac{\text{adjusted closing RAB value}}{(1 + ROI_v)} \\
 &+ \frac{\text{EV account movement}}{(1 + ROI_v)^{182/365}}
 \end{aligned}$$

where:

$$\begin{aligned}
 \text{adjusted closing RAB value} &= \text{closing RAB value} \\
 &- \text{value of found assets} \\
 &+ \text{value of lost assets} \\
 &- \text{adjustment to opening RAB value resulting} \\
 &\quad \text{from change in cost allocation}
 \end{aligned}$$

and:

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<sup>35</sup> The present value of any investment is the discounted value of future cash flows

$$EV \text{ account movement} = \text{closing EV account balance} \\ - \text{opening EV account balance}$$

and:

$$\begin{aligned} \sum VCA &= \frac{VCA_{JUL}}{(1 + ROI_v)^{16.5/365}} + \frac{VCA_{AUG}}{(1 + ROI_v)^{47.5/365}} \\ &+ \frac{VCA_{SEP}}{(1 + ROI_v)^{77.5/365}} + \frac{VCA_{OCT}}{(1 + ROI_v)^{108.5/365}} \\ &+ \frac{VCA_{NOV}}{(1 + ROI_v)^{138.5/365}} + \frac{VCA_{DEC}}{(1 + ROI_v)^{169.5/365}} \\ &+ \frac{VCA_{JAN}}{(1 + ROI_v)^{200.5/365}} + \frac{VCA_{FEB}}{(1 + ROI_v)^{228.5/365}} \\ &+ \frac{VCA_{MAR}}{(1 + ROI_v)^{259.5/365}} + \frac{VCA_{APR}}{(1 + ROI_v)^{289.5/365}} \\ &+ \frac{VCA_{MAY}}{(1 + ROI_v)^{320.5/365}} + \frac{VCA_{JUN}}{(1 + ROI_v)^{350.5/365}} \end{aligned}$$

and:

<i>adjustment to opening RAB value resulting from a change in cost</i>	is the total for all assets included in the <b>opening RAB value</b> of the difference between the <b>opening RAB value</b> and the amount calculated by applying to the <b>unallocated opening RAB value</b> the cost allocation
<i>closing EV account balance</i>	means the net sum of the <b>EV accounts</b> at the end of the <b>disclosure year</b> , with a net amount owing to <b>customers</b> being a negative value
<i>disposed asset proceeds</i>	is the total of the proceeds of disposal of <b>disposed assets</b> net of their unaccrued disposal costs in the <b>disclosure year</b>
<i>opening EV account balance</i>	means the net sum of the <b>EV accounts</b> at the start of the <b>disclosure year</b> , with a net amount owing to <b>customers</b> being a negative value
<i>operating expenditure</i>	has the meaning specified in the <b>Transpower IM</b>
<i>other regulated income</i>	is the sum of <b>other regulated income</b> for the <b>disclosure year</b>
<i>pass-through cost</i>	has the meaning specified in the <b>Transpower IM</b>
<i>recoverable cost</i>	has the meaning specified in the <b>Transpower IM</b>
<i>regulatory tax allowance</i>	is the income tax amount determined by applying the <b>tax rules</b> to the <b>regulatory profit/(loss) before tax</b> in accordance with Part 2 Subpart 3 of the <b>Transpower IM</b> for the <b>disclosure year</b>
<i>revenue</i>	is the sum of <b>HVAC transmission revenue</b> plus <b>HVDC transmission revenue</b> plus recovered <b>pass-through costs</b> plus recovered <b>recoverable costs</b> received by Transpower through <b>prices</b> in the <b>pricing year</b>
<i>ROIv</i>	means the vanilla return on investment for the <b>disclosure year</b>
<i>TCSD</i>	is the <b>term credit spread differential allowance</b> as specified in Part 2 Subpart 4 of the <b>IM determination</b> for the <b>disclosure year</b>
<i>value of found assets</i>	is the sum of the values of each <b>found asset</b> as specified in Part 2 Subpart 2 of the <b>Transpower IM</b> for the <b>disclosure year</b>
<i>value of lost assets</i>	is the sum of the values for each <b>lost asset</b> its <b>opening RAB value</b> less its <b>depreciation</b> for the <b>disclosure year</b>
<i>VCA [MONTH]</i>	is the sum of <b>value of commissioned asset</b> for each asset having a <b>commissioning date</b> in the applicable month of the <b>disclosure year</b> .

- D13 The post-tax ROI, comparable to the post-tax WACC is found by subtracting the interest tax shield (in percentage terms) from the vanilla ROI:

$$ROI_{PT} = ROI_V - (r_d \times T_c \times L)$$

where:

$ROI_{PT}$	means the post-tax return on investment for the <b>disclosure year</b>
$ROI_V$	means the vanilla return on investment for the <b>disclosure year</b>
$r_d$	means the cost of debt specified in Part 2 Subpart 4 of the <b>Transpower IM</b>
$T_c$	means the average corporate tax rate specified in Part 2 Subpart 4 of the <b>Transpower IM</b>
$L$	means the leverage percentage specified in Part 2 Subpart 4 of the <b>Transpower IM</b>

### Rationale for cash-flow timing assumptions

#### *Revenue*

- D14 Transpower earns revenue slightly later than mid-year on average (on the 217<sup>th</sup> day of the year). This reflects standard industry practice where revenue is received on the 20<sup>th</sup> day of the month following supply.
- D15 The revenue timing factor in the above ROI equation allows for the fact that Transpower earns its revenue in accordance with its pricing year. Transpower's disclosure year is from 1 July to 30 June whereas Transpower's pricing year is from 1 April to 31 March.
- D16 Therefore, Transpower's revenues are received on average on the 217<sup>th</sup> day of the pricing year which is the 127<sup>th</sup> day of the disclosure year.
- D17 The draft requirements included a timing factor for revenue which assumed that revenues are received by Transpower slightly later than mid-year on average. This timing assumption reflected our policy intent but does not allow for the difference between Transpower's disclosure year and pricing year.

#### *Operating expenditure*

- D18 Some operating expenditure is paid on standard commercial terms ie, the 20th of the month following while other operating expenditure, such as wages and salaries, are incurred earlier. A reasonable assumption then is that operating expenditure occurs evenly throughout the year or on average at mid-year.

#### *Pass-through and recoverable costs*

- D19 Pass-through and recoverable costs are both an expense for Transpower as well as a revenue item. The revenue side is captured within 'revenue' so is received on the same terms (20<sup>th</sup> of the month following supply). When Transpower is paying these costs, it would be appropriate to assume that they are occurred evenly throughout the year in the same manner as operating expenditure, ie, mid-year on average.

*Commissioned assets*

D20 There can be significant seasonality effects in the commissioning of assets. The building blocks for the wash-up in Schedule E of the IPP determination weight the value of commissioned assets taking into account the date they are commissioned. This has practically been interpreted as being weighted by the month in which they were commissioned. The ROI calculation takes this approach, requiring the cash-flows for commissioned assets to be calculated monthly.

*Disposed assets*

D21 A mid-year assumption is representative of the cash-flows Transpower receives from the disposal of assets as they generally occur evenly throughout the year. Calculating the ROI with a monthly timing for disposed assets would result in an immaterial change in the ROI.

*Tax*

D22 Transpower's regulatory tax allowance is estimated using a tax payable approach.<sup>36</sup> This approach comes closest to approximating the cash-flows Transpower would need to meet its obligations to the IRD. Transpower would pay its corporate tax on average slightly later than mid-year. A mid-year timing assumption is however, reasonable and in any case to the benefit of Transpower.

*Term-credit spread differential*

D23 The term-credit spread differential (TCSD) can be assumed to occur at mid-year. This is consistent with the assumption that an efficient firm would arrange its debt financing obligations to match its overall net cash-flows. Given the current small size of Transpower's TCSD, the difference in amounts with a mid-year and year-end timing factor is largely immaterial in any case.

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<sup>36</sup> For an explanation of the rationale in applying a tax payable approach to Transpower see the Transpower Input Methodologies Reasons paper, 5.3, p. 65.

## Attachment E: Calculation of regulatory profit

### Purpose of this attachment

- E1 This attachment explains how regulatory profit is calculated in the determination, including the calculation of the different inputs of regulatory profit.

### Calculation of regulatory profit

- E2 Key determinants of regulatory profit include revenue, taxation, the impact of any credit spread arising from long-term debt, the economic gain or loss arising through the mechanisms in Transpower's price-quality path, pass-through and recoverable costs.
- E3 The value of the RAB is determined by the initial RAB value and how the RAB value is rolled forward, including the calculation of depreciation, commissioned assets, disposed assets and the allocation of assets to the regulated part of the business.
- E4 Regulatory profit is calculated for regulated transmission activities. System operator regulatory profit is disclosed separately in Schedule SO1. This is to ensure regulatory profit, and the ROI, is comparable to Transpower's price-quality path. This helps ensure interested persons have the information necessary to determine whether IPP regulation is promoting the purpose of Part 4.
- E5 The regulatory profit calculation also adjusts for the effect of the 'wash-up' mechanism included in Transpower's IPP. The wash-up mechanism provides for over or under-recovery to be returned to or recovered from consumers in subsequent pricing years. This is done by way of the EV account. Adjusting regulatory profit for the wash-up therefore provides a more useful picture of Transpower's profitability to interested persons which better enables them to assess whether Transpower is earning an appropriate economic return.
- E6 The calculation for regulatory profit/(loss) before tax is set out on the following page.<sup>37</sup>

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<sup>37</sup> Clause references are to the *Transpower Information Disclosure Determination [2014] NZCC 5*.

$$\begin{aligned}
 \text{regulatory profit/(loss)} \\
 \text{before tax} &= \text{revenue} \\
 &+ \text{other regulated income} \\
 &- \text{operating expenditure} \\
 &- \text{pass-through costs} \\
 &- \text{recoverable costs} \\
 &- \text{depreciation} \\
 &- \text{TCS D}
 \end{aligned}$$

where:

<i>depreciation</i>	has the meaning specified in the <b>Transpower IM</b>
<i>operating expenditure</i>	has the meaning used in clause A1
<i>other regulated income</i>	has the meaning used in clause A1
<i>pass-through cost</i>	has the meaning used in clause A1
<i>recoverable cost</i>	has the meaning used in clause A1
<i>revenue</i>	has the meaning used in clause A1
<i>TCS D</i>	has the meaning used in clause A1

E7 The regulatory profit/(loss) before tax including EV account movement is calculated in accordance with the following formula:

$$\begin{aligned}
 \text{regulatory profit/(loss) before} \\
 \text{tax including EV account} \\
 \text{movement} &= \text{regulatory profit/(loss) before tax} \\
 &+ \frac{\text{EV account movement}}{(1 - T_c)}
 \end{aligned}$$

where:

<i>T<sub>c</sub></i>	has the meaning used in clause A2
<i>EV account movement</i>	has the meaning used in clause A1
<i>regulatory profit/(loss) before tax</i>	is specified in clause A3.





expenditure allowance building block in Schedule D of the IPP due to materiality. This means including them in the calculation of regulatory profit does not reduce the usefulness of the regulatory profit measure.

*Term-credit spread differential*

- E14 Transpower may incur a credit spread longer than the 5 years assumed in the calculation of the WACC rate that applies to Transpower. Long-term debt typically has a higher cost, thus the TCSD allowance allows Transpower to recognise the extra cost as an expense in regulatory profit.
- E15 Further reasoning for recognising a TCSD allowance is included in the Transpower IM reasons paper.<sup>38</sup>
- E16 The TCSD allowance schedule will only be required to be completed if the weighted average original tenor of the debt portfolio is greater than 5 years.

*Regulatory tax allowance*

- E17 The regulatory tax allowance is a significant component of regulatory profit. Transpower's regulatory tax allowance is estimated using a tax payable approach.<sup>39</sup>
- E18 The Transpower IMs state that the regulatory tax allowance is to be calculated by applying the tax rules and the corporate tax rate to regulatory profit.<sup>40</sup> However, a tax deduction for interest must be substituted with a tax deduction for notional deductible interest.<sup>41</sup>

*Pass-through and recoverable costs*

- E19 Pass-through and recoverable costs are not included in the regulatory profit calculation to reflect the fact that these costs are outside the control of management.
- E20 Pass-through and recoverable costs are disclosed by way of IPP compliance.

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<sup>38</sup> Commerce Commission, "Transpower Input Methodologies Reasons Paper" (31 January 2012), p. 79.

<sup>39</sup> Commerce Commission "Transpower Input Methodologies Reasons Paper" (31 January 2012), p. 65.

<sup>40</sup> Transpower Input Methodologies Determination [2012] NZCC 17.

<sup>41</sup> Transpower Input Methodologies Determination [2012] NZCC 17.

## Attachment F: Transpower's existing information reporting requirements

### Purpose of this attachment

- F1 Certain information required to achieve the purpose of information disclosure is already required to be publicly disclosed by Transpower under other information reporting requirements. This attachment outlines Transpower's current information reporting requirements.
- F2 Accordingly, this information is not included in the requirements unless they are necessary to ensure accessible information is disclosed or to ensure consistent disclosure from year to year.
- F3 While these information reporting requirements are not repeated in the determination, they should be considered together with the requirements in the determination by interested parties when assessing whether the purpose of Part 4 is being met.
- F4 In addition to the requirements set out in the determination, Transpower publicly discloses:
- F4.1 an Integrated Transmission Plan, as required under the Capex IM,
  - F4.2 annual compliance information as required by the IPP determination,
  - F4.3 the Transmission Pricing Methodology, and
  - F4.4 certain quality performance information as required by the Electricity Authority.
- F5 In addition, Transpower has previously been required to disclose additional information on a regular basis under information gathering notices. The determination incorporates these requirements.

### Information disclosure requirements included in the Integrated Transmission Plan

- F6 The Integrated Transmission Plan is composed of narrative information as well as three supporting documents:
- F6.1 an asset management plan (AMP)
  - F6.2 a planning report
  - F6.3 a report on outputs and performance objectives.
- F7 Together, this provides a significant amount of information on how the grid is being managed for the long-term. There is however, additional information of value to interested persons that relates to the Integrated Transmission Plan that is not

required by the Capex IM to be disclosed, for example asset health information. We have included such information in the information disclosure determination.

- F8 The Integrated Transmission Plan is published prior to the start of a regulatory period and is updated for any changes in each year of the regulatory period.

*Narrative information required in the Integrated Transmission Plan*

- F9 The narrative information requirements in the Integrated Transmission Plan provide for the following:

- F9.1 overview of expenditure needs and outputs
- F9.2 forecast opex, base capex and approved major capex
- F9.3 forecast grid output measures
- F9.4 key assumptions and scenarios used to determine forecast expenditure and grid outputs
- F9.5 the uncertainties in these assumptions
- F9.6 assessment of the key risks affecting forecast expenditure
- F9.7 assessment of how these uncertainties and risks will affect Transpower's ability to deliver forecast grid outputs
- F9.8 description of risk mitigation measures
- F9.9 description of relationships between projects, programmes, and forecast grid outputs
- F9.10 a summary of major capex projects under development.

- F10 The Integrated Transmission Plan narrative also provides an opportunity for Transpower to express its overview of risks, uncertainties and Transpower's risk management practices. This enables interested persons to better assess whether the grid management strategies Transpower undertakes are in the long-term benefit of consumers.

*Information included in the asset management plan*

- F11 The AMP requires the following information:
- F11.1 overall asset management strategy and objectives
  - F11.2 overall risk management framework
  - F11.3 AMPs for each asset class covering the following:
    - F11.3.1 specifications for asset life cycle activities

- F11.3.2 general condition of existing assets
- F11.3.3 intended programmes of asset management works
- F11.3.4 routine maintenance and repair plans for assets
- F11.3.5 programmes for routine maintenance and repair plans.

*Information included in the planning report*

- F12 The planning report requires information on the following:
- F12.1 the capabilities of the existing grid
  - F12.2 demand and generation forecasts for the next 10 years
  - F12.3 the grid's ability to meet future generation and demand needs
  - F12.4 the role of the grid in facilitating generation
  - F12.5 grid investment that may be required to meet future needs for the next 10 years and beyond. This includes grid backbone transmission plans for the main North and South Island transmission corridors and for the HVDC link as well as a set of regional plans.

*Information included in the report on output and performance objectives*

- F13 The report on output and performance objectives provides information on how Transpower intends to provide a service in line with consumers' expectations and is implementing a strategy to do this. It requires Transpower to disclose the following information:
- F13.1 a longer term view of outputs and grid performance that will be economic to achieve taking account of:
    - F13.1.1 performance expectations of end users of electricity
    - F13.1.2 costs of delivering changes in level of grid outputs
    - F13.1.3 the impact of committed expenditure on grid outputs
    - F13.1.4 any forecast degradation in asset condition or performance that will affect grid outputs.
  - F13.2 a detailed description of the analysis, assumptions and approach used to determine this longer term view
  - F13.3 an approach to convert this longer term view into short term objectives

### Information included in the annual compliance information requirements

- F14 Annual compliance information is currently included in Transpower's Annual Regulatory Report and is required by the IPP determination. The compliance information requires Transpower to disclose information on its performance against its IPP. This includes information on revenues, MAR wash-ups, EV accounts and quality measures.<sup>42</sup>
- F15 The disclosure of this information allows interested persons to understand whether Transpower is complying with its IPP, and the extent of any differences between the price-path and Transpower's performance.
- F16 It is more suitable for this information to be contained in the IPP determination as the IPP varies from regulatory period to regulatory period. Consequently, the compliance requirements will change.
- F17 Disclosure of the Incremental Rolling Incentive Scheme (IRIS) will be required by annual compliance information requirements in the IPP determination for RCP2. This is a change from the draft information disclosure requirements as we have reviewed the information requirement and determined that the nature of this information is more in line with price-path compliance disclosures due to its relationship with recoverable costs.

### Pricing information

- F18 Transpower provides information on its pricing methodology to the Electricity Authority. Transpower's pricing methodology requirements are contained in Subpart four of part 12 of the Electricity Participation Code 2010. The Transpower pricing methodology has been developed by Transpower but reviewed and approved by the Electricity Authority.<sup>43</sup>
- F19 As the TPM is already publicly available, the determination does not require Transpower to disclose its pricing methodology.
- F20 However, in order to help understand whether the TPM is promoting efficient prices, the determination requires Transpower to disclose connection charges, interconnection charges, non –TPM charges and the total charges at point of service where suppliers of electricity lines services are either directly or indirectly supplied. This information will help understand the outcomes of applying the TPM.

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<sup>42</sup> Base (minor) capex information requirements are included in the IPP for RCP1. For RCP2 onwards, base capex information requirements are outlined in the Capex IM and included in the determination.

<sup>43</sup> The TPM was recommended to the Minister on 29 June 2007. Pursuant to section 172I of the Electricity Act 1992, the Minister notified the amendment of the Electricity Governance Rules 2003 (Rules) under section 172H of the Electricity Act and were published in the Gazette on 12 July 2007.

### Information included in the Capex IM annual information requirements

F21 The Capex IM reasons paper outlines base and major capex annual information requirements. The base capex requirements are currently included in the compliance requirements of the IPP determination.<sup>44</sup> The major capex information requirements are currently included in an annual information gathering notice.<sup>45</sup>

#### *Base capex information requirements previously collected through the IPP determination*

F22 The following base capex requirements are included in the Capex IM reasons paper.

- F22.1 actual base capex compared against approved base capex by category
- F22.2 information relevant to any determination of base capex policies and procedures adjustment, including for any base capex projects over \$20 million:
  - F22.2.1 a summary of the cost-benefit analysis undertaken, and evidence of consistency with the investment test under the Capex IM
  - F22.2.2 a description of the consultation process undertaken in relation to each project, and summary of responses
  - F22.2.3 identification of any projects for which a cost-benefit test and consultation consistent with major capex projects was not undertaken
- F22.3 a list of any capital expenditure projects originally contained in the base capex proposal that are now deemed major capex
- F22.4 information relevant to any base capex expenditure adjustment and grid output adjustment including:
  - F22.4.1 the information, values or amounts used to determine the quantum of the adjustment, as specified in the Capex IM
  - F22.4.2 all calculations and assumptions used to obtain those values or amounts
  - F22.4.3 evidence to support the actual foreign exchange (FX) rates.

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<sup>44</sup> Commerce Commission, "Transpower Capital Expenditure Input Methodology Reasons Paper" (31 January 2012), paragraph 10.2.2.

<sup>45</sup> Commerce Commission, "Transpower Capital Expenditure Input Methodology Reasons Paper" (31 January 2012), paragraph 10.3.2.

*Major capex information previously collected through information gathering notices*

F23 Transpower has previously provided the following information to the Commission in response to information gathering notices:

F23.1 information on uncompleted projects, including:

F23.1.1 updates as to the expected major capex project cost (ie, an updated P50) compared against the major capex allowance (or maximum recoverable cost, in the case of non-transmission solutions), together with explanations for any variance between the updated P50 and the P50 value specified in the major capex project approval, and

F23.1.2 forecast commissioning date or completion date, and explanations for any variance from the commissioning date assumption or completion date assumption specified in the Major capex project approval.

F23.2 information for each commissioned or completed major capex project, including:

F23.2.1 commissioning dates of assets associated with the project, and explanations for variances between the actual commissioning date and any commissioning date assumption specified in the project approval

F23.2.2 in the case of a transmission investment, actual expenditure, and explanations of any variance from P50

F23.2.3 in the case of a non-transmission solution, the actual costs treated as recoverable costs, and explanations of any variance from P50

F23.2.4 the grid outputs achieved by the project and explanations for any variances from the approved outputs

F23.2.5 analysis of lessons learned during and after the project

F23.2.6 an assessment of any cost efficiencies that Transpower considers it has achieved in the course of the project, including descriptions, explanations, and assumptions made

F23.2.7 any required adjustments resulting from project overspend relative to the major capex allowances

F23.2.8 any required major capex adjustments resulting from non-delivery of major capex project outputs

F23.3 information for calculating the major capex overspend adjustment and the major capex project output adjustment, including:

F23.3.1 the values or amounts for each term used to determine the quantum of the relevant adjustment, as specified in the Capex IM

F23.3.2 all calculations and assumptions used to obtain those values or amounts

F23.3.3 evidence in support of the actual FX rates.