3 September 2024

Claire Harkess
Manager, Data and Information Disclosure
Commerce Commission
Wellington 6140
New Zealand City

Dear Claire,

Cross-submission on amendments to information disclosure requirement 2024

Electricity Networks Aotearoa (ENA) appreciates the opportunity to cross submit on the Commerce Commission's (Commission) draft decision on the amendments to the information disclosure (ID) requirements 2024.

ENA is the industry membership body that represents the 29 electricity distribution businesses (EDBs) that take power from the national grid and deliver it to homes and businesses. ENA harnesses members' collective expertise to promote safe, reliable and affordable power for our members' customers.

The ENA original submission supports the Commission's intent to align the ID requirements in light of the Input Methodologies (IM) review and the recommendations on the following issues remain relevant:

- Issue #1 – Disclosure of IRIS carry forward balances
- Issue #2 – Wash-up account and other carry-forward balances
- Issue #3 – Transferred Works Under Construction
- Issue #4 – Network lease opex clarification

This cross-submission provides further clarity to the recommendations in response to Issue #1 – Disclosure of IRIS carry forward balances.

Proposed IRIS disclosures

The Draft Decision proposes annual year end disclosures of IRIS balances in a new Schedule 3a, to apply to all non-exempt EDBs.

The Draft Decision paper suggests that these proposed disclosures are necessary to '*assess and mitigate the risk that some EDBs do not sufficiently engage with the cashflow implications of IRIS, and to provide additional information to interested persons on underspends or overspends on EDBs' allowances.*'[1]

However, the proposed schedule does not accurately represent the components of the IRIS incentive mechanism and is not well suited to annual year end disclosures. It also does not generate the recoverable cost amount that is required for Schedule 2. This is because the capex IRIS recoverable cost, and the base year adjustment term component of the opex IRIS

[1] Draft Decision para 2.5

recoverable cost are derived in one year but recovered over four years. We note it is not possible to determine the recoverable cost amounts to apply in the next regulatory period, until the end of the current regulatory period.[2]

Accordingly, Unison and Centralines submission proposed improvements to Schedule 3a to better reflect the way that the IRIS incentive recoverable cost is derived and to provide insights into the variance between non-exempt EDB expenditure allowances and actual expenditure.

While the Unison and Centralines submission improves the proposed schedule, there remain issues with how the schedule can be used for annual disclosures, and whether the proposed information fully meets the objectives of the disclosure. We note that the proposed schedule largely replicates the Commission's IRIS incentive model, which is used in the transition between regulatory periods.

IRIS incentives are more than the recoverable cost amounts

By focussing on the recoverable cost incentive amounts, the draft decision misrepresents how the IRIS incentives work in practice. This is because the financial incentives reflect the following, which together give effect to the sharing properties of IRIS:

- impacts on EDB profit in the current regulatory period; and
- impacts on EDB cost bases, and therefore revenue allowances and consumer prices in the next, and following regulatory periods; and
- recoverable cost amounts and therefore revenue allowances and consumer prices, in the next regulatory period.

The recoverable cost amounts are influenced by when over/underspends occur, and by how much, and whether these amounts fluctuate during a regulatory period. As the recoverable cost is a true up to give effect to the incentive rates given the other impacts listed above, the recoverable cost of itself is not an indicator of how well an EDB has managed its costs relative to the allowance or the cashflow impacts of IRIS.

Proposed disclosure

Currently ID Schedule 2 includes the annual IRIS incentive adjustment recoverable cost amount. This is consistent with the amount disclosed in each non-exempt EDB's annual DPP/CPP compliance statement. The IRIS recoverable cost model published by the Commission shows the derivation of these amounts. Accordingly, it is not necessary to also show the derivation of the recoverable cost amount in the IDs as this is covered by DPP compliance.

To meet the objectives for additional disclosures for IRIS we propose disclosures of each non-exempt EDB's actual expenditure within a regulatory period compared with the regulated expenditure allowances used for IRIS.

Although ID Schedule 7 provides an annual reconciliation of actual and forecast expenditure, this is not effective for IRIS because:

- it is not a comparison against the DPP/CPP expenditure allowances
- IRIS applies to commissioned asset values not expenditure on assets

[2] For the capex IRIS, the recoverable cost aligns to the DPP regulatory period, even for EDBs on CPPs.

- IRIS treats lease payments as opex not right of use (ROU) assets, which differs to the ID expenditure definitions
- IRIS applies in real terms from DPP4, with reference to forecast inflation at the time the expenditure allowances are set.

We therefore propose a simple schedule, which shows how actual opex and commissioned asset values within a regulatory period are tracking against allowances, formatted to align to the IRIS specifications.

Most of the proposed schedule is mechanical and can be populated readily from information available in the DPP Determination[3] and other ID schedules. EDBs will be required to input annual information about leases and ROU assets to complete the schedule.

Because we propose a time series within the current regulatory period, interested persons including EDBs can readily assess expenditure trends to date against the regulatory allowances. When a new regulatory period starts, the schedule is refreshed with updated forecast allowances and CPI. This also applies when EDBs transfer between DPPs and CPPs.

We attach an Excel document showing the proposed schedule.

If you have any questions about ENA's cross-submission, please contact Gemma Pascall, Regulatory Manager [redacted]

Yours sincerely,

Hamish Groves

Regulatory Manager (Acting)

[3] Reopeners may amend expenditure allowances within a regulatory period, which will be reflected in the schedule once known.