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Proposed amendments for 2015 to information disclosure determinations for electricity distribution and gas pipeline services

Consultation paper

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Contents

1. INTRODUCTION	1
2. OVERVIEW OF MATTERS CONSIDERED.....	4
3. ROI – ASSESSMENT OF PROFITABILITY	9
4. OTHER FINANCIAL INFORMATION	17
5. ASSET MANAGEMENT PLANS	24
6. EDB NETWORK INFORMATION	27
7. GDB NETWORK INFORMATION	30
8. GTB NETWORK INFORMATION	32
9. DISCLOSURE OF ERRORS, DIRECTOR CERTIFICATION AND TRANSITIONAL REQUIREMENTS...	35
10. HOW YOU CAN PROVIDE YOUR VIEWS	41
ATTACHMENT A : COMPARISON OF ID AND PRICE-QUALITY PATH CASH FLOW TIMING ASSUMPTIONS.....	43
ATTACHMENT B : LIST OF PASS THROUGH AND RECOVERABLE COSTS	44

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1. Introduction

Purpose of this paper

- 1.1 This paper proposes amendments to the information disclosure requirements applying to suppliers of electricity distribution, gas transmission and gas distribution services (ID requirements).¹
- 1.2 We invite your views on the proposed amendments. Submissions are due by 5pm, 5 December 2014.²
- 1.3 By providing your views on this paper, you will help inform our final decision on the amendments to the ID requirements to apply from March 2015.

This is a first round of proposed amendments

- 1.4 This is the first in an on-going series of proposed amendments. This round of proposed amendments is focused on addressing implementation issues identified by users. This is not a comprehensive review of the ID requirements.
- 1.5 Future rounds of proposed amendments will address matters we have not addressed in this round. Any matters not addressed in this paper may be addressed at a later date.
- 1.6 The current ID requirements were determined in October 2012.³ This followed the determination of the input methodologies in December 2010.⁴

¹ The proposed amendments in this paper do not apply to suppliers of electricity transmission or airport services.

² Chapter 10 provides full details on how you can provide your views.

³ Commerce Commission "Electricity Distribution Information Disclosure Determination 2012" (1 October 2012); Commerce Commission "Gas Distribution Information Disclosure Determination 2012" (1 October 2012); and Commerce Commission "Gas Transmission Information Disclosure Determination 2012" (1 October 2012).

⁴ Commerce Commission "Electricity Distribution Services Input Methodologies Determination 2010" (22 December 2010); Commerce Commission "Gas Distribution Services Input Methodologies Determination 2010" (22 December 2010); and Commerce Commission "Gas Transmission Services Input Methodologies Determination 2010" (22 December 2010).

Issues with the ID requirements have been identified

- 1.7 Users of the ID requirements have identified issues with their application, which have been collated in an issues register.⁵
- 1.8 As outlined in our process paper, we have needed to prioritise our consideration due to the number of issues identified.

Matters considered as part of these proposed amendments

- 1.9 To provide for a structured approach to the amendments, this round of proposed amendments focuses on:
- 1.9.1 non-complex matters, ie, matters that require no or limited consultation, do not require a fundamental change to the ID requirements and can be addressed without expert resource;⁶ and
- 1.9.2 complex matters that relate to the ROI calculation, other financial information, asset management plans, network information, director certification and disclosure of errors.
- 1.10 Complex matters that relate to other areas of the ID requirements have been deferred for consideration at a later date.
- 1.11 We have chosen to focus our consideration of complex matters on specified areas to limit the number of amendments that would be required to individual disclosures.

Material released alongside this paper

- 1.12 Alongside this paper, we have also published draft consolidated determinations of the proposed ID requirements for consultation. Amendments are identified as Microsoft Word track changes except for amendments to the disclosure templates (Schedules 1-12) which are highlighted in orange.
- 1.13 Chapter 10 provides full details on how you can provide your views on both this paper and the draft consolidated determinations.

⁵ Commerce Commission “Issues Register for Electricity and Gas Information Disclosure” (15 April 2014).

⁶ Non-complex matters generally relate to typo and error corrections.

Attachments to this paper

1.14 Included in the attachments for reference purposes are:

- 1.14.1 an overview of the cash flow timing assumptions included in the IRR ROI calculations compared to the default price-quality path and customised price-quality path allowable revenue calculations (Attachment A); and
- 1.14.2 a list of price-quality path pass through and recoverable costs and how we propose treating them in the ID requirements (Attachment B).

2. Overview of matters considered

Purpose of this chapter

- 2.1 This chapter provides an overview of:
- 2.1.1 the matters considered as part of this round of amendments; and
 - 2.1.2 the matters deferred for consideration during future rounds of amendments.
- 2.2 We also provide an overview of how matters being considered as part of the default price-quality path applicable to electricity distribution services from 1 April 2015 (electricity price-quality path) are treated in this round of amendments.

Matters considered as part of this round of amendments

- 2.3 The purpose of this round of amendments is to consider various matters noted in the issues register for electricity distribution and gas pipeline services.⁷ Due to time and resource constraints not all matters could be addressed in this round of amendments.
- 2.4 Accordingly, we decided, in consultation with interested parties⁸, that this round of amendments would consider matters that:
- 2.4.1 require little or no consultation; and
 - 2.4.2 would not lead to multiple amendments to the same information requirements.

Matters that require little or no consultation

- 2.5 In determining the matters to be addressed, we decided to address matters that required little or no consultation. These were identified as non-complex and generally related to drafting errors.
- 2.6 Amendments that are non-complex and not expected to require consultation are not discussed in this paper but are instead identified as track changes in the draft consolidated determinations. We recommend interested parties review these changes for reasonableness.

⁷ Commerce Commission “Issues Register for Electricity and Gas Information Disclosure”, above n 5.

⁸ Commerce Commission “Proposed process – Amendments to information disclosure requirements” (23 June 2014).

Matters that reduce the likelihood of multiple amendments to the same information

- 2.7 Our review of the complex matters was focused on types of disclosed information. Focusing our review of complex matters on types of disclosed information reduces the likelihood of multiple amendments to the same information requirements.
- 2.8 In response to the process paper consultation, Vector recommended we work through a process to resolve all issues and make a single amendment to the ID requirements.⁹ Although we agree that this would reduce potential confusion from multiple amendments and remove the requirement to prioritise issues, we consider the delay would outweigh the benefits.
- 2.9 Table 2.1 provides an overview of the complex matters considered in this round of amendments, and where they are addressed in this paper.

Table 2.1: Overview of matters considered in this round of amendments

Type of disclosure	Electricity distribution services	Gas distribution services	Gas transmission services
ROI – assessment of profitability		Chapter 3	
Other financial information		Chapter 4	
Asset management plans		Chapter 5	
Network information	Chapter 6	Chapter 7	Chapter 8
Certification, errors in previously disclosed information and transitional requirements		Chapter 9	

Matters deferred to future rounds of amendments

- 2.10 Due to time and resource constraints not all complex matters could be addressed in this round of amendments.
- 2.11 We decided to defer matters that:
- 2.11.1 are being considered as part of an alternative work stream;
 - 2.11.2 are likely to require significant consultation; or
 - 2.11.3 require an amendment to an input methodologies determination.

⁹ Vector “Information Disclosure amendments process” (11 July 2014), at 2.

2.12 Table 2.2 provides an overview of matters deferred to future rounds of amendments.

Matters that are being considered as part of an alternative work stream or likely to require significant consultation

2.13 Matters that are being considered as part of an alternative work stream or likely to require significant consultation are deferred to reduce the likelihood of multiple amendments to the same information.

2.14 EDB quality of service and incremental rolling incentive scheme disclosures are examples of matters being considered as part of an alternative work stream.

2.15 Valuation of related party transactions is an example of matters that will likely require significant consultation.

Matters where an amendment to the input methodologies determinations is required

2.16 We propose to defer matters where an amendment to an input methodologies determination is required.¹⁰ This is because the purpose of input methodologies is to promote certainty for suppliers and consumers in relation to the rules, requirements, and processes applying to the regulation.¹¹

Table 2.2: Summary of matters deferred to future rounds of amendments

Type of disclosure	Matters deferred
Return on Investment (ROI)	Disclosure of information to support the assessment of profitability (refer paragraphs 3.22 to 3.24)
Financial Information	Valuation of related party transactions Disclosure of incremental rolling incentive scheme Depreciation disclosures Expenditure categories Various amendments to asset valuation, treatment of taxation and cost allocation IMs IM definitions of operating cost, pass through costs and recoverable costs

¹⁰ Clause 52Y of the Commerce Act outlines a requirement for the Commission to review the input methodologies at least every 7 years. Proposed amendments to the IMs are to be deferred for consideration as part of the 7 year review unless there is a compelling reason for them to be addressed earlier.

¹¹ Commerce Act 1986, s 52R.

Type of disclosure	Matters deferred
Pricing information	Clarification of criteria for disclosing contract, pricing and pricing methodology information Timing of non-standard contract disclosures GTB price notice period timing
Non-financial information	Alignment of SAIDI and SAIFI definitions to price-quality path regulation Definition and application of terms ICP, customer and connection Asset categories EDB quality measures EDB circuit length disclosures GPB emergency definitions GDB classes of interruptions GDB odour test disclosure GDB telephone call disclosures GTB definition of interruptions

Matters considered as part of the electricity price-quality path reset process

- 2.17 We propose amending the ID requirements for the following matters considered as part of the electricity distribution default price-quality path reset process (electricity price-quality path reset process).
- 2.18 Proposed amendments associated with the determination of profitability; and
- 2.19 List of pass through and recoverable costs.
- 2.20 A final decision on the electricity price-quality path is due by 28 November 2014. Changes to the price-quality path decisions for the above will be, where appropriate, reflected in the final decision of the amendments to the ID requirements.

Proposed amendment to the profitability assessment

- 2.21 We propose amending the profitability assessment so consistent assessments of profitability can be made over the longest period of time available.

Proposed amendment to the list of pass through and recoverable costs

- 2.22 We propose updating the list of recoverable costs recognised in ID to align with the new recoverable costs proposed as part of the electricity price-quality path reset process.
- 2.23 Pass through and recoverable costs required updating irrespective of the changes proposed as part of the electricity price-quality path reset process. Including these

changes in this round of amendments reduces the likelihood of the associated requirements being amended more than once.

Other price-quality regulation matters not considered in this round of amendments

2.24 Other matters addressed as part of the electricity price-quality path reset process, which have not been considered in this round of amendments are:

2.24.1 SAIDI and SAIFI definitions; and

2.24.2 Incremental Rolling Incentive Scheme (IRIS).

2.25 We have deferred amendments to the ID requirements for these matters because the changes are not required until the end of the first disclosure year of the new regulatory period (ie, 31 March 2016). Deferring these amendments also allows consultation on the electricity price-quality path to be completed. It also means regulated suppliers can continue to disclose information consistent with the current default price-quality path.

3. ROI – assessment of profitability

Purpose of this chapter

- 3.1 This chapter discusses the matters considered in this round of amendments that relate to the return on investment (ROI) calculation.
- 3.2 To provide context to the proposed amendments we also provide an overview of the ROI profitability assessments included in information disclosure and the recoverable costs applied in price quality regulation.
- 3.3 Table 3.1 sets out our proposed amendments to the ROI calculation.

Table 3.1: Proposed amendments to the ROI calculation

Area of proposed amendment	Proposed amendment	Affected clauses and schedules*
ROI - assessment of profitability	<ul style="list-style-type: none"> the ROI reflect actual profits earned the effect of financial incentives are included alongside the ROI notional cash flow timing assumptions in the internal rate of return (IRR) ROI calculations are aligned to the timing assumptions applied in price-quality regulation the WACC rates disclosed for comparison to the ROI reflect the final decision on the WACC percentile 	<p>Schedule 2</p> <p>Clause 1.4.3 definitions</p> <p>Schedule 16 definitions</p>

* References are to the original determination's clauses and schedules

- 3.4 We have also considered, but decided not to amend the ID requirements for:
- 3.4.1 information to support the assessment of profitability other than the disclosure of financial incentives; and
- 3.4.2 when the monthly ROI is required to be disclosed.
- 3.5 The remainder of this chapter discusses the matters relating to the ROI considered as part of this review.

Overview of the ROI profitability assessments included in information disclosure

- 3.6 Interested persons require an indicator of profitability to assess whether the Part 4 purpose is being met. ROI is a commonly used measure of profitability, which allows interested persons to compare the relative performance of firms of different sizes. In particular, ROI allows interested persons to compare a supplier's profitability to its allowed WACC.

- 3.7 The ID requirements currently provide the following ROI information comparable to a vanilla and post-tax weighted average cost of capital (WACC):
- 3.7.1 ROI indicator that assumes mid-year timing of revenue and expenditure items (mid-year ROI);
 - 3.7.2 ROI indicator based on monthly notional cash flow (monthly ROI), which is only required when specified criteria are met; and
 - 3.7.3 ROI indicator that assumes a year-end timing of revenue and expenditure (year-end ROI).¹²

Recoverable costs applied in price quality regulation

- 3.8 This section provides an overview of the recoverable costs recognised in price-quality regulation to provide context to the proposed amendments to the ROI profitability assessment.
- 3.9 Price-quality regulation includes recoverable costs which are included to:
- 3.9.1 incentivise suppliers for performance (financial incentives); and
 - 3.9.2 compensate suppliers for specific under or over recovery of past costs (wash-ups).
- 3.10 The price-quality path mechanism works by establishing a notional cost which has the effect of increasing allowed profits by increasing allowed revenues. These recoverable costs are not costs incurred by the regulated business in the year the recoverable cost is recognised.
- 3.11 Table 4.2 outlines the recoverable costs included in price-quality regulation and categorises them into financial incentives, wash-ups and costs incurred by the regulated supplier in the disclosure year.

The ROI reflects actual profits earned

- 3.12 We propose the ROI reflect profits earned in the disclosure year including the effect on profitability of increased revenues from financial incentives, wash-ups and revenue smoothing.
- 3.13 The mechanism for accounting for financial incentives and wash-ups in price-quality regulation was previously included in the ID cost base. Consequently, the profits

¹² The year-end ROI is provided to allow comparability over time. The year-end ROI was the only profitability assessment in the 2008 EDB ID requirements which were in effect until 2012.

earned or lost as a result of these adjustments were excluded from assessed profitability.

- 3.14 By excluding the financial incentive and wash-up notional costs from the ID cost base, interested parties are able to assess the actual profitability of suppliers.
- 3.15 The financial incentives and wash-ups previously included as recoverable costs in the ID cost base that we propose excluding, are:
- 3.15.1 Net recoverable cost Incremental Rolling Incentive Scheme (IRIS);
 - 3.15.2 Avoided transmission charges - purchased assets portion (EDB only);
 - 3.15.3 Input methodology claw-back; and
 - 3.15.4 Recoverable customised price-quality path costs.
- 3.16 As part of the electricity price-quality path reset process, we have proposed additional financial incentives and wash-up adjustments. We propose that some of these also be excluded from the ID cost base. The new EDB recoverable costs we propose excluding are:
- 3.16.1 Quality incentive scheme adjustment;
 - 3.16.2 Energy efficiency and demand incentive allowance;
 - 3.16.3 Capex wash-up adjustment;
 - 3.16.4 Transmission asset wash-up adjustment;
 - 3.16.5 2013-15 NPV wash-up allowance; and
 - 3.16.6 Reconsideration event allowance.
- 3.17 Paragraphs 4.4 to 4.7 outline the criteria applied to determine which recoverable costs should be recognised in the ID cost base.

The effect of financial incentives are included alongside the ROI

- 3.18 While it is important for interested parties to understand the actual profitability of suppliers it is equally important for them to understand the effect financial incentives have had. Accordingly, we propose including an additional disclosure in Schedule 2: Report on Investment which estimates the impact that financial incentives have had on the disclosed ROI.
- 3.19 This disclosure will allow interested parties to determine what the ROI would have been before taking into account any rewards or penalties under the incentive schemes.

- 3.20 The effect of financial incentives is determined by recalculating the mid-year ROI comparable to the vanilla WACC, but assuming no additional revenue was earned from financial incentives.¹³ The resulting difference is also the difference that would apply to the other IRR ROI calculations.¹⁴ Accordingly, the estimated effect of financial incentives on the ROI is only calculated once.
- 3.21 Table 4.2 outlines the recoverable costs that are deemed to be financial incentives as well as the criteria applied.

Disclosure of information to support the assessment of profitability

- 3.22 It is not expected that actual profitability in a given year will directly reflect the cost of capital for a firm for that year. Variances will occur for many reasons and in some instances these will not be a reason for concern, such as when:
- 3.22.1 efficiency gains are made during the year;
 - 3.22.2 profits are earned or lost as a result of financial incentives;
 - 3.22.3 prices are set to return a profit different to the WACC to accommodate under- or over-recovery of costs in prior or preceding years;¹⁵ and
 - 3.22.4 forecast assumptions outside the control of suppliers are proven to be inconsistent with actual outcomes.
- 3.23 It is important that parties assessing profitability have sufficient information to understand the reasons for variances in profitability. However, it is currently unclear whether all reasons for variances should or could be quantified and reported on in the suppliers' disclosure. Accordingly, we propose deferring full consideration of the disclosure of additional information to support the assessment of profitability until there is sufficient time for the issue to be considered in depth.
- 3.24 Initially, summary and analysis may have a role to play in explaining variances. We therefore encourage suppliers to make voluntary disclosures to support reasons for reported variances in profitability to assist with this process.

¹³ The calculation removes the additional revenue and the notional tax paid on the additional profitability.

¹⁴ Although the calculated estimated effect of financial incentives is not directly applicable to the year-end ROIs, it is deemed a reasonable estimate.

¹⁵ The proposed electricity price-quality path price setting mechanism allows for a return different to the WACC to account for claw backs for prior regulatory period under recoveries, smoothing of prices through the regulatory period and wash-ups included in recoverable costs. Exempt EDBs may also have their own internal mechanisms to deal with the recovery of costs between years.

Cash flow timing assumptions in the IRR ROI calculations

- 3.25 The notional cash flow timing assumptions applied in the mid-year and monthly internal rate of return (IRR) ROI calculations have been aligned to the timing assumptions proposed as part of the electricity price-quality path reset process. These timing assumptions reflect the most recent assumptions applied in the regulatory regime.
- 3.26 Table 3.2 sets out the adjustments proposed for the IRR ROI calculations. Attachment A compares the timing assumptions proposed for the IRR ROI calculations with the timing assumptions used in price-quality regulation.

Table 3.2: Adjustment to the IRR ROI calculations

Timing assumption	Mid-year ROI	Monthly ROI
Line charge revenue	Revenue deemed to be received 20 th of the month following accrual	Revenue deemed to be received 20 th of the month following accrual Remove 'revenue related working capital' adjustment
Term credit spread differential	Include as year-end cash flow	No change ¹⁶
Regulatory tax	Remove double accounting of deferred tax changes Remove double tax deduction of the term credit spread differential (TCS D) and recognise it as a mid-year timing assumption ¹⁷	Remove double accounting of deferred tax changes Remove double tax deduction of TCS D and recognise it as a mid-year timing assumption

- 3.27 The proposed mid-year ROI calculation is directly comparable to the draft electricity price-quality path allowable revenue calculation,¹⁸ except the mid-year ROI calculation recognises:

3.27.1 revenue earned as a result of pass through and recoverable costs;¹⁹

¹⁶ The TCS D is already recognised in the monthly IRR ROI calculation.

¹⁷ Treating the TCS D in the regulatory tax calculation as a mid-year timing assumption and the TCS D expense as a year-end timing assumption in the IRR ROI calculations is consistent with the treatment under price quality regulation.

¹⁸ Commerce Commission "Electricity Distribution Business Price Quality Regulation 1 April 2015 Rest: Model 9. Financial Model Draft determination version" (4 July 2014).

- 3.27.2 pass through and recoverable costs to the extent they represent costs incurred by the supplier in the disclosure year;²⁰ and
- 3.27.3 asset disposals as a mid-year timing assumption.²¹
- 3.28 The notional cash flow timing assumptions for the monthly ROI calculation are to align to the mid-year ROI timing assumptions except cash flows are recognised monthly rather than assuming a consistent spread throughout the year.

Line charge revenue timing assumption

- 3.29 We propose updating the timing assumption for the receipt of line charge revenue to align it to the price-quality path assumptions. Revenue had previously been deemed to be received mid-month evenly throughout the year in the mid-year ROI. As outlined in the reasons paper supporting the amendments to the CPP timing assumptions, it is more appropriate to assume revenues are received on the 20th of the month following accrual.²²
- 3.30 We have also updated the line charge revenue timing assumption in the monthly ROI calculation. By recognising line charge revenue as being received on the 20th of the month following accrual, the related working capital adjustment is no longer required and has therefore been removed.²³

Term credit spread differential timing assumption

- 3.31 The term credit spread differential expense had previously been erroneously excluded from the mid-year ROI calculation. We propose including it as a year-end timing assumption consistent with the default price-quality path treatment. The term credit spread differential continues to be recognised as a year-end timing assumption for the monthly ROI.

¹⁹ The price-quality path allowable revenue calculations determine revenue prior to the consideration of pass through and recoverable costs.

²⁰ Refer paragraphs 3.12 to 3.15 for further discussion on pass through and recoverable costs not included in the ROI calculation.

²¹ Asset disposals are recognised as a mid-year cash flow in the CPP IM and year-end cash flow in the electricity price-quality path draft calculation. The different treatment is not considered material to either of the calculations.

²² Commerce Commission “Electricity and Gas Input Methodologies Determination Amendments (No.2) 2012: Reasons Paper” (15 November 2012), at [14.1].

²³ The revenue related working capital adjustment was previously included to compensate suppliers for revenues being received later than mid-month. This approach was difficult to administer and provided no further accuracy than the approach adopted for the mid-year ROI calculation.

- 3.32 The timing assumption is consistent with the default price-quality path timing assumption. The term credit spread differential (TCSD) timing assumption for customised price-quality path is likely to be considered as part of the IM 7 year review.

Regulatory tax timing assumption

- 3.33 We propose amending the IRR ROI calculations so notional cash tax payable is recognised rather than regulatory tax allowance. The regulatory tax allowance was previously used in error. This amendment aligns the ID requirements to the price-quality path allowable revenue calculations and removes the double accounting of the deferred tax movement.²⁴
- 3.34 The regulatory tax calculation is also updated to align to recently proposed changes to the EDB IM as part of the electricity price-quality path reset process.²⁵ Changes include the removal of the double deduction of the TCSD expense in the tax calculation and recognising the TCSD tax deduction as mid-year timing assumption. The TCSD timing assumption in the ROI calculation and the regulatory tax allowance calculation is intentionally different.

Disclosure of the monthly ROI

- 3.35 Vector has questioned the necessity of the monthly ROI suggesting it has shown to be very close to the standard ROI.²⁶ The monthly ROIs have on occasion shown a meaningful variation to the mid-year ROIs²⁷ and we therefore continue to see the benefit of requiring the disclosure where the disclosure is likely to be different to the mid-year ROI.
- 3.36 However, we also realise there is a cost in applying the criteria for determining if the disclosure is required. We therefore request submissions on how the criteria could be simplified while still meeting the objectives of the disclosure.
- 3.37 PwC also asked whether it was the intention for the monthly ROI disclosure to be made when the disclosure criteria are triggered because of the timing of posted

²⁴ The deferred tax movement is recognised in the IRR ROI calculations by recognising the opening and closing deferred tax balance in the opening and closing regulatory investment values.

²⁵ Commerce Commission “Draft Electricity Distribution Input Methodology Amendments Determination 2014” (20 October 2014).

²⁶ Vector “Improvements to the IDD’s” (1 February 2014).

²⁷ In their 2013 disclosures Alpine Energy, Centralines and Electricity Asburton had 43, 37 and 103 basis point differences in their monthly and mid-year ROIs respectively.

discounts or rebate payments.²⁸ We can confirm that it is the intention for the disclosure to be made in such circumstances.

WACC rates disclosed alongside the ROI

- 3.38 We may need to align the Schedule 2 weighted average cost of capital (WACC) disclosures to our decision on the percentile estimate of the WACC once our decision on the WACC percentile is finalised. Our decision on the WACC is expected to be finalised prior to publishing our final decision on this round of amendments.
- 3.39 We recently released our draft decision on the appropriate percentile estimate of the WACC to apply to energy businesses.²⁹ Our draft decision is that a range from the 33rd to 67th percentile of our estimated WACC distribution should be used for information disclosure regulation. The 25th to the 75th percentile is currently used.
- 3.40 The decision on the WACC percentiles may require amendments to Schedule 2 and its corresponding defined terms. The amendment to clause 2.2.11 of the IM determinations proposed in the WACC percentile draft decision, which relates to the interest during construction calculation, would not require an amendment to the ID requirements for it to take effect.

²⁸ PricewaterhouseCoopers “IDD clarification points resulting from the PWC ELB CFO forum (07/12/12)”.

²⁹ Commerce Commission “Proposed amendment to the WACC percentile for electricity lines services and gas pipeline services” (22 July 2014).

4. Other financial information

Purpose of this chapter

- 4.1 This chapter discusses the matters considered as part of this round of amendments which relate to financial information, but excluding matters relating to the ROI calculation (which were covered in Chapter 3).
- 4.2 Table 4.1 sets out our proposed amendments to other financial information.

Table 4.1: Proposed amendments to other financial information

Area of proposed amendment	Proposed amendment	Affected clauses and schedules*
Pass through and recoverable costs recognised in information disclosure	<p>Financial incentives and wash-up adjustments are excluded from the ID cost base</p> <p>The list of pass through costs is updated to clarify where costs are disclosed</p> <p>Recoverable costs are updated to reflect the costs proposed as part of the electricity price-quality path reset process</p> <p>All EDBs are required to disclose a detailed breakdown of pass through and recoverable costs recognised in the ID cost base</p>	<p>Schedule 2</p> <p>Schedule 3</p> <p>Schedule 16 definitions</p>
Regulatory tax disclosures	<p>Regulatory tax calculation reflects IM changes which remove the double deduction of the TCSD and revised tax timing assumption of the TCSD (EDB and GDB only)</p> <p>Separate disclosure of the exclusion of current year revaluations from taxable income</p> <p>Clarify 'opening weighted average remaining life of relevant assets' definition used for determining 'amortisation of initial difference in asset values' (EDB and GDB only)</p> <p>Clarify that Schedule 14 disclosures relating to permanent and temporary differences are only required for material items</p> <p>Define and refine terms used to improve clarity</p>	<p>Clause 1.4.3 definitions</p> <p>Schedule 3</p> <p>Schedule 5a</p> <p>Schedule 14</p> <p>Schedule 16 definitions</p>
Discretionary discounts, customer rebates and customer distributions	<p>The list of policies to be disclosed in relation to owner distributions has been extended to align to the policy decision (EDB only)</p> <p>The erroneous reference to discretionary discounts and customer rebates is excluded from the GDB ID requirements (GDB only)</p>	<p>EDB clause 1.4.3 definitions</p> <p>EBD ID clause 2.4.23</p> <p>GDB ID Schedule 5a</p>
Related party transaction disclosure	Improved disclosure of the valuation approach adopted	Schedule 16 definitions

* References are to the original determination's clauses and schedules

Pass through and recoverable costs

4.3 This section outlines the proposed amendments to the disclosure of pass through and recoverable costs.

Financial incentives and wash-up adjustments are excluded from the ID cost base

- 4.4 We propose amending how recoverable costs are treated in the ID requirements. Financial incentives and wash-ups are to be excluded from the ID cost base and instead financial incentives will be separately disclosed alongside the ROI profitability assessment. Paragraphs 3.12 to 3.20 outline our reasons for this proposed change.
- 4.5 Financial incentive recoverable costs allow suppliers subject to price quality regulation to increase prices based on performance. They are excluded from the ID cost base as they do not reflect actual costs incurred.
- 4.6 Wash-up recoverable costs reflect costs already recognised in the ID cost base but not price-quality regulation allowable revenue. Wash-up recoverable costs are excluded from the ID cost base in the year they are recognised in price-quality regulation because the costs would have already been reflected in the suppliers' ID cost base in the year incurred.
- 4.7 The remaining recoverable costs, which are recognised in the ID cost base, represent costs incurred by the supplier in the disclosure year.
- 4.8 Table 4.2 outlines the recoverable costs included in each of the categories and the criteria used to categorise them. Attachment B includes references to the IM determinations for each recoverable cost identified.

Table 4.2: Recoverable costs categorisation

Recoverable cost category	Recoverable costs included in category	Criteria for including costs in category
Cost recognised in the ID cost base	<ul style="list-style-type: none"> • Electricity lines service charge payable to Transpower (EDB only) • Transpower new investment contract charges (EDB only) • System operator costs (EDB only) • Distributed generation allowance (EDB only) • Balancing gas costs (GTB only) • Extended reserves allowance (EDB only) 	Recoverable costs incurred by the regulated supplier in the current disclosure year

Recoverable cost category	Recoverable costs included in category	Criteria for including costs in category
Financial incentives	<ul style="list-style-type: none"> • Net recoverable costs allowed under incremental rolling incentive scheme • Purchased assets - avoided transmission charge (EDB only) • Energy efficiency and demand incentive allowance (EDB only) • Quality incentive adjustment (EDB only) 	Recoverable costs that do not represent an actual cost incurred by the regulated supplier
Wash-up adjustments	<ul style="list-style-type: none"> • Input methodology claw-back • Recoverable customised price-quality path costs • Catastrophic event allowance (EDB only) • Capex wash-up adjustment (EDB only) • Transmission asset wash-up adjustment (EDB only) • 2013-2015 NPV wash-up allowance (EDB only) • Reconsideration event allowance (EDB only) 	Recoverable costs incurred by the regulated supplier but not in the current disclosure year

List of pass through costs are updated to remove confusion

4.9 We have improved the pass through costs terms used in ID by referring to ‘Industry levies’ and ‘CPP specified pass through costs’. The definitions are also updated so there is a direct reference to the IM terminology. This removes the ambiguity identified by regulated suppliers.³⁰

4.10 Attachment B outlines the revised terms used and references to the relevant IM clauses.

Recoverable costs are updated to reflect costs proposed in the electricity price-quality path

4.11 We have proposed changes to align the ID requirements to the proposed amendments to the IMs as part of the electricity price-quality path reset process. Additional financial incentives and wash-up adjustments have been proposed as part of the electricity price-quality path reset process.

³⁰ PricewaterhouseCoopers “IDD clarification points resulting from the PWC ELB CFO forum (07/12/12)”, above n 28.

All EDBs required to disclose a detailed breakdown of pass through and recoverable costs recognised in the ID cost base

- 4.12 We also propose removing the voluntary exemption that allows exempt EDBs to not provide a detailed breakdown of pass through and recoverable costs.³¹ Requiring the disclosure of pass through and recoverable costs by all EDBs provides a greater comparability of costs across regulated suppliers. Because costs are required to be separately calculated to be included in the cost base, the additional disclosure is not expected to be onerous.³²

Regulatory tax disclosures

- 4.13 This section discusses the amendments and matters considered that relate to the regulatory tax disclosures.

TCSD IM amendments

- 4.14 The treatment of the TCSD in the calculation of the regulatory tax as outlined in the IMs has been amended for GPBs³³ and is proposed to be amended for EDBs as part of the electricity price-quality path reset process.³⁴ We propose updating the ID determinations to align to the IM change.
- 4.15 The changes remove the double deduction of the TCSD and change the TCSD timing assumption in the calculation of notional deductible interest.
- 4.16 The double deduction of the TCSD in regulatory tax is removed by excluding the TCSD expense from regulatory profit / (loss) before tax. The TCSD is then recognised in regulatory taxable income through its continued inclusion in notional deductible interest.
- 4.17 The change in the notional deductible interest calculation is a formula change to the schedules.

Revaluations

- 4.18 We propose a separate line disclosure for the deduction of revaluations from taxable income to remove confusion on how revaluations are treated. In the 2013

³¹ The voluntary exemption to disclose a breakdown of pass through and recoverable costs was included in the green section of Schedule 3 of the EDB ID requirements.

³² It is noted that only 2 exempt EDBs used the exemption to not disclose the breakdown of pass through and recoverable costs in the 2013 disclosures.

³³ Commerce Commission "Gas Pipeline Services Input Methodologies Determination Amendment (No. 1) 2013" (25 February 2013).

³⁴ Commerce Commission "Proposed amendments to input methodologies for Electricity Distribution Services: Consultation Paper" (24 June 2014).

disclosures EDBs failed to exclude current year revaluations from taxable income. The proposed change clarifies the correct treatment.

- 4.19 Revaluations are not treated as temporary differences that go through the deferred tax account but instead are amortised in the regulatory tax allowance through amortisation of revaluations. Accordingly current year revaluations are reversed out of regulatory profit as a negative permanent difference and the amortisation of revaluations is included as a positive permanent difference.
- 4.20 Further description of the modified deferred tax approach and the reasons for adopting it are outlined in the IM reasons paper.³⁵

Amortisation of initial difference in asset values (EDB and GDB only)

- 4.21 We propose clarifying the definition of ‘opening weighted average remaining life of relevant assets’ used for determining the ‘amortisation of initial difference in asset values’. Suppliers have asked questions and raised concerns on the interpretation of this definition.³⁶
- 4.22 In clarifying the definition we have specified an approach that requires the calculation of the average remaining life of the assets only at the beginning of the regime, with the remaining years being determined based on the original calculation. Although it may be more accurate to recalculate the average every year, we do not believe the benefit of doing so would outweigh the costs.
- 4.23 The ‘opening weighted average remaining life of relevant assets’ definition allocates the tax effect of the initial difference in asset values between disclosure years. The specification of the term is therefore NPV neutral.
- 4.24 By defining ‘opening weighted average remaining life of relevant assets’ as proposed, the spreading of the tax effect of the initial difference in asset values will not take into account timing changes created from asset disposals, acquisition of assets from other regulated suppliers and assets with remaining asset lives that are greater than the average. These are not expected to have a material effect on the regulatory tax calculation.
- 4.25 Amortisation of initial difference in asset values is recognised in the regulatory tax calculation by increasing the regulatory taxable income and crediting the tax effect

³⁵ Commerce Commission “Input Methodologies (Electricity Distribution and Gas Pipeline Services) Reasons Paper, December 2010” (22 December 2010), at [5.3.5]-[5.3.16].

³⁶ Commerce Commission “Issues Register for Electricity and Gas Information Disclosure”, above n 5, at issue 321.

to the deferred account. This is equivalent to applying deferred accounting to the tax written down value portion of the regulatory asset base.

- 4.26 Unison also requested clarification on how assets without an asset life are to be treated in determining the weighted average life.³⁷ Such assets would have no effect on the outcome when applying the definition.³⁸ However, it raises a question about whether the initial difference in assets values associated with these assets should be amortised along with the other initial differences or only recognised when the asset is sold. Consideration of this issue has been deferred as any change would likely require amendment to the IM determination.

Disclosure of permanent and temporary differences

- 4.27 We propose clarifying that the Schedule 14 mandatory explanatory notes only require descriptions and workings of material permanent and temporary differences. Suppliers had previously requested clarification on the requirement.
- 4.28 Requiring the disclosure of only material items aligns the requirement to other Schedule 14 disclosures.³⁹

Defining and refining terms used

- 4.29 We have defined and refined various terms used in the regulatory tax calculation to improve clarity. The terms defined or refined include:
- 4.29.1 Notional deductible interest;
 - 4.29.2 Opening sum of RAB values without revaluations;
 - 4.29.3 Lost and found assets adjustment;
 - 4.29.4 Adjustment resulting from asset allocation;
 - 4.29.5 Opening and closing regulatory tax asset values;
 - 4.29.6 Tax effect of other temporary differences; and
 - 4.29.7 Tax effect of tax depreciation.

³⁷ Commerce Commission “Issues Register for Electricity and Gas Information Disclosure”, above n 5, at issue 321.

³⁸ An asset with no asset life would have a nil value in the weighted average calculation, therefore, having no effect on the outcome.

³⁹ Schedule 14(5) requires the disclosure of material items included in ‘other regulated income’.

EDB Discretionary discounts, customer rebates and other owner distributions

- 4.30 We have updated the list of policies required to be disclosed in relation to owner distributions. The term financial distributions was previously not defined. This resulted in inconsistencies in disclosures with the policy, including discretionary discounts and customer rebate policies not being disclosed. The policy is outlined in the reasons paper.⁴⁰
- 4.31 Discretionary discounts and customer rebates are included in profits for regulatory purposes.⁴¹ These discounts and rebates, however, form part of the net price paid by consumers and may provide incentives for consumers to alter their behaviour. Therefore policies relating to such discounts should accompany any comparison of prices paid across consumer groups and over-time.
- 4.32 A requirement to disclose the value of the financial distribution has also been included so interested persons can understand how significant the payments are.

Related party transactions disclosure

- 4.33 We propose clarifying the related party disclosure requirements to remove ambiguity about how suppliers describe the valuation approach applied.
- 4.34 Suppliers have adopted a number of approaches to describing the valuation approach applied. We propose amending the definition of ‘basis for determining value’ so it is clear suppliers should refer to the relevant ID or IM sub clause applied in the valuation.⁴²
- 4.35 Suppliers have raised various issues about the valuation approaches allowed under the ID requirements for related party transactions. As specified in chapter 2 we have decided to defer consideration of these issues.

⁴⁰ Commerce Commission “Information Disclosure for Electricity Distribution Businesses and Gas Pipeline Businesses: Final Reasons Paper” (1 October 2012) at [4.25-4.27].

⁴¹ Where EDBs return profits to owners (consumers) through discretionary discounts or customer rebates this is equivalent to a dividend and is therefore included as part of regulatory profits.

⁴² Related party operating expenditure transactions are valued using the approaches specified in clause 2.3.6 of the ID Determinations or for capital expenditure clause 2.2.11(5) of the IM Determination.

5. Asset management plans

Purpose of this chapter

- 5.1 This chapter discusses the matters considered as part of this round of amendments which relate to asset management plans (AMP).

Table 5.1: Proposed amendments to the AMP requirements

Area of proposed amendment	Proposed amendment	Affected clauses and schedules*
Timing of disclosures	Forecast schedules (Schedules 11 and 12) are publicly disclosed before the start of the disclosure year	Clause 2.6.5 Schedule 14a Schedule 17 Schedules 11.x-12.x EDB Schedule 18, GDB and GTB Schedule 19 EDB clause 2.7.2, GDB and GTB clause 2.7.3 Various cross-references to the above clauses.
AMP update disclosures	Clarify when an AMP update can be disclosed instead of a full AMP.	Clause 2.6.3
Report on Asset Management Maturity	Only relevant columns of the Report on Asset Management Maturity be required to be disclosed in the AMP Remove the suggestion that AMMATs are required to be maintained	Schedule 13
GTB AMP requirement	Remove the GTB requirement that available capacity calculations have specific regard to historic pressure requirements at offtake points.	GTB Attachment A 8.2.
Disclosure of inflation assumptions	Clarify the period for which suppliers must describe the difference between nominal and constant price expenditure	Schedule 14a

* References are to the original determination's clauses and schedules

Timing of disclosing forecast schedules

- 5.2 We propose Schedules 11 and 12 (forecast schedules) be publicly disclosed before the start of each disclosure year rather than five or six months afterwards as currently required. Requiring the information to be disclosed only at the beginning of the disclosure year removes the confusion around when the information is required to be disclosed and what the certification requirements are when disclosing at the later date.

- 5.3 The forecast schedules include information relating to forecast asset condition, capital expenditure, capacity demand, interruptions and duration, operational expenditure and utilisation.
- 5.4 We initially allowed the forecast schedules to be publicly disclosed with the year-end schedules (5-6 months after the start of the disclosure year) but required them to be disclosed to us before the start of the disclosure year. This allowed suppliers to provide interested persons with a single reference source for the annual schedules. We now consider the benefit of this to be outweighed by the confusion it has caused.
- 5.5 The proposed amendments also include associated amendments to the director certification, the mandatory explanatory notes disclosures and various cross-references.
- 5.6 We note the information contained within the schedules is still required to be included in the AMP, AMP update, or transitional AMP as applicable. The AMP, AMP update, or transitional AMP does not need to contain the schedules themselves, but must include the information disclosed within the schedules.⁴³

Simplifying the disclosure of the Report on Asset Management Maturity

- 5.7 We propose simplifying the disclosure of the Report on Asset Management Maturity included in the AMP. The Report on Asset Management Maturity includes a number of columns to assist suppliers in completing the report that provides little value for the reader. These additional columns make the report large and difficult to disclose. We therefore propose including in the requirements a list of the minimum columns required to be disclosed in the AMP.
- 5.8 The effect of the change is to not require the user guidance column or maturity level descriptions other than the maturity level description relating to the score.
- 5.9 This change has been proposed in response to the challenges suppliers have had when including the report in the AMP⁴⁴ and to facilitate consistency in the disclosure of the report.

Report on Asset Management Maturity

- 5.10 We propose clarifying our intentions with regards to the Report on Asset Management Maturity. It was our intention that suppliers complete the AMMAT

⁴³ This is noted in response to a clarification request from Northpower. Ibid, at issue 80.

⁴⁴ Commerce Commission "Issues Register for Electricity and Gas Information Disclosure", above n 5, at issue 139.

report rather than complete and maintain it. The introductory paragraphs in Schedule 13 erroneously suggest the Report on Asset Management Maturity should be both completed and maintained.

- 5.11 It is the responsibility of the supplier to determine how it should monitor the maturity of its asset management function. Suppliers may choose to use the AMMAT report between making disclosures under the ID requirements, but it is not a requirement.

AMP update

- 5.12 We propose clarifying the clause that specifies when an AMP update can be disclosed. It has been suggested that clause 2.6.3 of the determinations can be interpreted to require disclosure of a full AMP only at the start of the regime.
- 5.13 An AMP update can be disclosed instead of a full AMP in certain circumstances. If a supplier has disclosed a full AMP in the previous disclosure year, it can choose to disclose an AMP update instead of a full AMP in certain disclosure years during the regulatory period.
- 5.14 We propose that transitional provisions available to GasNet and MDL in clause 2.12.12 of the GTB and 2.12.8 of the GDB determinations and written exemptions under clause 2.11.1 of the determinations would continue to apply.

Pressure requirements at offtake points

- 5.15 We propose removing reference to ‘pressure requirements’ in the GTB AMP. Vector has advised us that the use of the term ‘pressure requirements’ creates compliance and interpretation issues for GTBs because gas pressure is not modelled in the way suggested by the GTB determination.⁴⁵ By removing the reference, pressure constraints across the system can be modelled to comply with contractual requirements and to reflect operational security margins.

Nominal and constant price expenditure forecasts

- 5.16 We propose clarifying the period that suppliers are required to comment on the difference between nominal and constant price expenditure. MainPower has sought clarity on when the variance analysis is required as part of the mandatory explanatory notes. It was our intention that suppliers would provide commentary on the variance for all disclosure years described in Schedule 11a and 11b. This has been made clear.

⁴⁵ Commerce Commission “Issues Register for Electricity and Gas Information Disclosure”, above n 5, at issue 151.

6. EDB network information

Purpose of this chapter

- 6.1 This chapter discusses the matters considered as part of this round of amendments which relate to EDB network information.

Table 6.1: Proposed amendments to EDB Network Information

Area of proposed amendments	Proposed amendment	Affected schedules*
EDB network information	Clarify terms relating to zone substations; including 'installed firm capacity' and 'transfer capacity'.	EDB Schedule 12b(i) EDB Schedule 16 definitions
	Consolidate terms relating to consumer connections	EDB Schedule 9e(i) EDB Schedule 12c(i)
	Allow EDBs to estimate the capacity of non-EDB owned transformer capacities	EDB Schedule 9e(iii)**

* References are to the original determination's schedules, except where identified with a '***'

** References are to the proposed determination's schedule

- 6.2 We have considered and decided not to amend the EDB determinations for the following matters:

- 6.2.1 other recommendations to amend the zone substation capacity disclosure;
- 6.2.2 replacing the disclosure of maximum coincident system demand with the disclosure of non-coincident maximum system demand; and
- 6.2.3 removing the requirement to disclose non-EDB owned transformer capacity.

Zone substation capacity disclosures

- 6.3 We propose updating the zone substation definitions for 'installed firm capacity' and 'transfer capacity' to clarify the requirement. Powerco has requested amendments to the definitions.⁴⁶ The proposed amendments recognise that firm capacity of a substation is not necessarily limited by the capacity of the highest capacity transformer.

⁴⁶ Commerce Commission "Issues Register for Electricity and Gas Information Disclosure", above n 5, at issues 342, 344-345.

- 6.4 Powerco also proposed extending the term ‘security of supply classification’ to include all upstream components.⁴⁷ We do not agree that this is an appropriate amendment. Although we acknowledge that more descriptive measures are available for security of supply classification, to ensure consistency between company disclosures we propose retaining the system redundancy metric. Accordingly, entries in the security of supply classification are selected from one of four categories – ‘N’, ‘N-1’, ‘N-2’ and ‘N-1 switched’.⁴⁸ If suppliers wish to disclose alternative security class ratings, these may be provided in the asset management plan.⁴⁹
- 6.5 Vector has proposed an amendment to the zone substation system growth information that is disclosed.⁵⁰ Vector has suggested adding to the table a column that seeks confirmation as to whether each substation is operating within the EDB’s security standards. We consider that this amendment is not required as the information may be entered in the ‘explanation’ column of the table.⁵¹

Capacity of distribution generation installed in year

- 6.6 We propose consolidating terms relating to distributed generation used in the demand and forecast schedules (Schedules 9e(i) and 12c(i)).⁵² The changes clarify that the disclosures relate to incremental increase in distributed generation from adding or forecasting to add distributed generation to the network. Wellington Electricity has requested clarification of the information required to be disclosed about distributed generation.⁵³

Non-coincident maximum system demand

- 6.7 Vector has proposed that suppliers disclose ‘non-coincident maximum system demand’ rather than ‘maximum coincident system demand’.⁵⁴ We consider ‘maximum coincident system demand’ to be the better measure as it is needed to calculate load factor. Accordingly, we do not propose an amendment. Suppliers

⁴⁷ Ibid, at issue 343.

⁴⁸ Commerce Commission “Electricity Distribution Information Disclosure Determination 2012” (1 October 2012), Schedule 16.

⁴⁹ Ibid, at attachment A at 4.2.1.

⁵⁰ Ibid, at Schedule 12b(i).

⁵¹ Ibid.

⁵² We have deferred amending the disclosures relating to consumer types and number of connections until full consideration can be given to the terms ICP, consumer and connection.

⁵³ Commerce Commission “Issues Register for Electricity and Gas Information Disclosure”, above n 5, at issue 43.

⁵⁴ Ibid, at issue 373.

wishing to disclose non-coincident maximum system demand may include the information as a voluntary explanatory note in Schedule 15.

Transformer capacity

- 6.8 Vector has suggested that suppliers should not have to disclose non-EDB owned transformer capacity in Schedule 9e(iii).⁵⁵ We propose keeping the disclosure as the total distribution transformer capacity, including the non-EDB owned transformer capacity, as it contributes to interested persons' understanding of the capacity utilisation of the network.
- 6.9 To address the issue that EDBs may not always be privy to information about non-EDB owned transformers capacity, we propose EDBs be allowed to estimate the capacity of these transformers where the information is not easily obtainable.

⁵⁵ Commerce Commission "Issues Register for Electricity and Gas Information Disclosure", above n 5, at issue 372.

7. GDB network information

Purpose of this chapter

- 7.1 This chapter discusses the matters considered as part of this round of amendments which relate to GDB network information.

Table 7.1: Proposed amendments to GDB Network Information

Area of proposed amendments	Proposed Amendment	Affected schedules*
GDB Network Information	Amending terms describing gas volumes.	GDB Schedule 1(i) GDB Schedule 9d(ii) GDB Schedule 12c(ii) GDB Schedule 16 definitions

* References are to the original determination's schedules

- 7.2 We have also considered and decided not to amend the GDB determinations to remove information by operating pressure.

Gas volumes

- 7.3 We propose a consolidation of terms used to describe the monthly amount of gas entering a network. Powerco questioned whether both 'maximum monthly load' and 'maximum monthly amount of gas entering network' are required.⁵⁶ Currently the terms produce the same information. We therefore propose removing the line containing 'maximum monthly amount of gas entering network' from the disclosure.

- 7.4 Vector has also requested the removal of terms describing aggregate overall load.⁵⁷ We consider that the disclosure of 'maximum daily load' and 'maximum monthly load' provides meaningful information and should continue to be disclosed. 'Maximum daily load' is an important measure for managing and understanding the limits of the network. 'Maximum monthly load' has been used in previous calculations and measurements, and provides an indicator of network performance.

Information by operating pressure

- 7.5 Vector has suggested that the requirement for disaggregating metrics by operating pressure in the GDB should be removed because it requires considerable resources

⁵⁶ Commerce Commission "Issues Register for Electricity and Gas Information Disclosure", above n 5, at issue 341.

⁵⁷ Ibid, at issue 371.

and is not used internally.⁵⁸ As discussed in the Reasons Paper supporting the initial determination, the information enables interested persons to compare information across networks, expenditure, expenditure drivers and quality outcomes and we therefore propose to retain the disclosure.⁵⁹

⁵⁸ Ibid, at issue 370.

⁵⁹ Commerce Commission “Information Disclosure for Electricity Distribution Businesses and Gas Pipeline Businesses: Final Reasons Paper”, above n 40, at [5.66].

8. GTB network information

Purpose of this chapter

8.1 This chapter discusses the matters considered as part of this round of amendments which relate to GTB network information.

Table 8.1: Proposed amendments to GTB Network Information

Area of proposed amendments	Proposed Amendment	Affected clauses and schedules*
GTB Network Information	Consolidate GTB terms used to describe intake volume, injection volume and offtake volume.	GTB Schedule 1(i)-1(ii) GTB Schedule 8(ii) GTB Schedule 9d(i)-(ii) GTB Schedule 12b(ii) GTB Schedule 16 definitions
	Clarify that GTB ‘new connections’ and ‘gas volumes and connections’ disclosures relate to injection and offtake points. Clarify the requirement to disclose connection types.	GTB Schedule 9d(i)-(ii) GTB Schedule 12b(i) GTB Schedule 16 definitions
	Clarify terms used to describe GTB ‘gas conveyed’.	GTB Schedule 9d(iii) GTB Schedule 12b(ii) GTB Schedule 16 definitions
	Enhance GTB ‘unaccounted for gas disclosure’ by adding table showing gas entering the system from other systems owned by GTB.	GTB Schedule 9d(iii) GTB Schedule 16 definitions
	Change the specified days that information concerning transmission system capacity reservations applies to ‘pricing year’.	GTB clause 2.5.4(4) GTB Schedule 16 definitions

* References are to the original determination’s clauses and schedules

Intake, injection and offtake volume

8.2 We propose consolidating and clarifying the terms used to describe quantity of gas entering the network, quantity of gas entering the system and quantity of gas delivered. This is to avoid confusion amongst suppliers and to make it easier for interested parties to understand. Vector has sought clarification on the relevant terms.⁶⁰ We propose standardising the terms as follows:

⁶⁰ Commerce Commission “Issues Register for Electricity and Gas Information Disclosure”, above n 5, at issues 291-292.

- 8.2.1 'quantity of gas delivered (TJ)' to describe offtake volume;
 - 8.2.2 'gas entering the network (TJ)' to describe injection volume; and
 - 8.2.3 'gas entering the system (TJ)' to describe injection and intake volume.
- 8.3 Powerco has questioned whether billed quantities should produce a different result to 'quantity of gas delivered (TJ)'.⁶¹ Billed quantities are required to reflect the quantities associated with each price component.⁶² We propose renaming the terms used to describe 'billed quantities' in Schedule 8(ii) to provide a clearer reference to the defined term 'billed quantities'.

'Gas volumes and connections' and 'new connections'

- 8.4 We propose amending Schedules 9d(i), 9d(ii) and 12b(i) and associated definitions to clarify the disclosure relates to both injection and offtake points. The disclosure provides more meaningful information for analysis of consumer connection expenditure if new injection volumes and points are included.
- 8.5 We also propose clarifying that information relating to both injection and offtake points require information about types of connection points, not persons such as a shipper.
- 8.6 We also propose clarifying that Schedule 9d(i), 9d(ii) and 12b(i) relate to expenditure on consumer connections. To clarify this, we have replaced the term 'consumer type' used in 9d(i), 9d(ii) and 12b(i) with 'connection type' and refined the 'connection type' defined term.

Gas Conveyed

- 8.7 We propose refining the GTB terms used to describe gas conveyed in Schedule 9d(iii). Vector has suggested that the table does not currently account for all gas and proposes adding a further line – 'change in Line Pack'.⁶³ Making this amendment should improve the clarity of the table. We also propose definitions for the terms 'unaccounted for gas' and 'total gas conveyed'.
- 8.8 We understand that these changes better align to the definition of 'unaccounted for gas' in the Vector Transmission Code. The exception being 'gas vented' which is

⁶¹ Powerco "Prioritising the Gas Distribution Businesses and Gas Transmission Businesses issues on the Commerce Commission's register" (10 July 2014), at issue 292.

⁶² Commerce Commission "Gas Transmission Information Disclosure Determination 2012" (1 October 2012), at Schedule 16.

⁶³ Commerce Commission "Issues Register for Electricity and Gas Information Disclosure", above n 5, at issue 414.

included in our definition of ‘unaccounted for gas’ but treated separately in the Vector Transmission Code.⁶⁴ We consider ‘gas vented’ to generally be an immaterial amount. However, if it is material, a GTB may record it in the Schedule 15 voluntary explanatory notes.

Unaccounted for gas

- 8.9 We propose the addition of a table in Schedule 9d(iv) disclosing the amount of gas entering the system from other systems owned by GTB. Vector has suggested that an extra table describing this information will help explain the difference between gas entering the network and gas entering the transmission systems.⁶⁵ Amending the disclosure is also helpful in the analysis of ‘unaccounted for gas’ for each system.

Transmission system capacity reservations

- 8.10 We propose changing the specified days for which information concerning transmission system capacity reservations is disclosed. Vector has questioned the relevance of disclosing information on the last and first day of the disclosure year when the changes occur between pricing years.⁶⁶ Changing the reference in clause 2.5.4(4) from ‘disclosure year’ to ‘pricing year’ allows interested persons to identify reservation changes that occur at the beginning of a new pricing year.

⁶⁴ Vector “Vector Transmission Code” (12 November 2011), at 16-17.

⁶⁵ Commerce Commission “Issues Register for Electricity and Gas Information Disclosure”, above n 5, at issue 415.

⁶⁶ Vector “Submission to the Commerce Commission on Information Disclosure Requirements for Electricity Distribution Businesses and Gas Pipeline Businesses: Technical Consultation” (August 2012), at 23.

9. Disclosure of Errors, Director Certification and Transitional Requirements

Purpose of this chapter

9.1 This chapter discusses the matters considered as part of this round of amendments which relate to the disclosure of errors, transitional requirements and director certification.

Table 9.1: Proposed amendments for the disclosure of errors, certification requirements and transitional provisions

Area of proposed amendment	Proposed amendment	Affected clauses and schedules*
Disclosure of errors in previously disclosed information	Suppliers are required to disclose information about errors in previously disclosed information, including certification and audit to the standard of the original disclosure for material errors Disclosures made in the years following disclosure of a material error be based on corrected information	Clause 1.4.3 definitions** Clause 2.12** Schedule 14* *
Cost allocation Director Certification	The year-end director certification to certify OVABAA information where relevant	EDB Schedule 18 GDB and GTB Schedule 19
Transitional Requirements	Remove transitional provisions that no longer apply Including transitional provisions, where applicable, to transition in this round of amendments	Clause 2.12 Schedule 5h EDB Schedule 5i Schedule 16 definitions EDB Schedule 19, GDB and GTB Schedule 20

* References are to the original determination's clauses and schedules, except where identified with a '***'

** References are to the proposed determination's clauses and schedules

Disclosure of errors in previously disclosed information

9.2 We propose including requirements for suppliers to quantify, report and certify errors in previously disclosed information. The ID requirements currently do not explicitly provide for the re-disclosure of information that is subsequently identified as incorrect.

- 9.3 The reporting of material errors will allow succeeding disclosures to reflect corrected information. Reporting corrected information allows interested parties to assess performance over time.
- 9.4 The proposed requirements will also:
- 9.4.1 provide clarity to regulated suppliers on the steps required when errors in previous disclosures are identified;
 - 9.4.2 specify the disclosures required to support error correction; and
 - 9.4.3 provide certainty to the Commission and interested parties that errors and their effects are able to be considered in the assessment of performance.
- 9.5 In specifying a requirement to amend previously disclosed information it is important to achieve a balance between ensuring interested parties have access to error free information while not overburdening the regulated supplier with requirements to update previously certified and audited information. Accordingly, the definition of error will be an important part of the requirements. A summary of the definition is outlined in the table below.

Table 9.2: Criteria for re-disclosing previously disclosed information

Included in the definition of error	Excluded from the definition of error
Base data was incorrect	The correction is to the initial RAB
A factual statement was incorrect	An estimate has changed due to new information becoming available
The compilation of disclosed information was inconsistent with the requirements in place at the time	The change is a lost or found assets adjustment

- 9.6 We propose establishing a specific definition of error rather than relying on the NZIAS 8 definition of *prior period error*.⁶⁷ The NZIAS definition includes only errors arising from a failure to use, or misuse of, information that could have reasonably been expected to be obtained and taken into account. The purpose of identifying errors in the ID requirements is to provide for materially error free time series information. We do not consider it appropriate to exclude errors based on it being reasonable to obtain and take into account the information available at the time.

⁶⁷ Financial Reporting Standards Board of the New Zealand Institute of Chartered Accountants “New Zealand Equivalent to international Accounting Standard 8: Accounting Policies, Changes in Accounting Estimates and Errors (NZ IAS) 8” (31 October 2010), at 10.

Disclosure process for year-end information

- 9.7 We propose a two-step process for notifying and making information publically available about errors in previous year-end disclosures. The two step process provides a balance between ensuring errors are identified in a timely manner while allowing for an efficient process in the re-disclosure of information.
- 9.8 Notification step: suppliers will be required to notify the Commission and interested parties of an error within one month of the error being identified. The notification is to identify the error and its likely effect on previously disclosed information. We propose not requiring the notification to be certified or audited so that it can be made in a timely manner.
- 9.9 Notification is to include disclosure to the Commission and identification of the error alongside the original disclosure. Notification of the error alongside the original disclosure means disclosing the existence of the error when disclosing the original information on the internet or providing any copies of the original disclosure to people who request it.
- 9.10 Detailed disclosure step: the detailed disclosure step is only for material errors and requires suppliers to disclose detailed information about the error and its effects (refer clause 12 of the draft consolidated determination).
- 9.11 We have not proposed that suppliers be required to automatically re-disclose the whole year end package. To do so would create an additional requirement for all information in the package to be re-certified and re-audited.
- 9.12 The detailed information about material errors must be publicly disclosed in the next year-end disclosure. Detailed information about the error will require certification and audit to the level specified for the information originally disclosed. Deferring the certification and audit of the information until the next year-end disclosure removes the requirement for an additional director certification and audit.
- 9.13 The detailed disclosure step is only required to be completed for material errors. This will reduce the number of disclosures by only disclosing errors that will have an effect on interested persons' analysis.
- 9.14 Disclosures made after the detailed disclosure of a material error, such as rolled forward balances and disclosure of prior year ratios and balances, are to be consistent with the corrected amounts. This is appropriate given there has been

public disclosure of the error and the error will have been certified and audited to the same standard as the original disclosure.⁶⁸

- 9.15 Affected disclosures are to include all disclosures directly affected and those that would require updating due to the flow on effect i.e. if there is an error identified that effects the regulatory tax allowance then regulatory profit and ROI may also require re-disclosure. We recommend suppliers use revised templates showing original and revised numbers where there are a significant number of disclosures affected within a schedule.

Re-disclosure of AMPs, policies, methodologies and contract information

- 9.16 We propose full re-disclosure of AMP, policies, methodologies and contract information where a material error is identified. The re-disclosure must include notification that the information is a re-disclosure, identify the error(s) and explain the effect of the change.
- 9.17 Partial re-disclosure of this information is not considered viable due to the potential for it to create confusion for interested parties.
- 9.18 We propose not requiring re-disclosure for items that are immaterial. The potential confusion and burden caused by re-disclosing for immaterial errors is likely to outweigh the limited benefits.
- 9.19 The information covered by this requirement includes disclosure of pricing methodologies (clause 2.4.12), capital contributions (clause 2.4.6), prescribed terms and conditions of contracts (clause 2.4.9), prices (clause 2.4.18) and AMPs (clause 2.6.1).

Cost allocation Director Certification

- 9.20 We intend updating the Director Certification required for year-end disclosures to include the IM required OVABAA certification.
- 9.21 The IM reasons paper B6.6 outlines the Commission's decision to require Directors to certify the appropriateness of the decision to include an OVABBA adjustment in the suppliers cost allocation.⁶⁹

⁶⁸ Schedule 14 information relating to annual disclosures is required to be certified and audited. Schedule 14a information relating to forecast information is required to be certified.

⁶⁹ Commerce Commission "Input Methodologies (Electricity Distribution and Gas Pipeline Services) Reasons Paper, December 2010", above n 35, at [B6.6].

Transitional Requirements

9.22 This section outlines why we have removed expired transitional requirements and seeks feedback on the transitional requirements to transition in the amendments proposed as part of this round of amendments.

Removing expired transitional requirements

9.23 We propose removing from the ID requirements the transitional provisions that no longer have an effect. The transitional requirements allowed suppliers to transition into the 2012 ID requirements. The transitional requirements, except the GDB and GTB transitional AMP requirements, no longer apply because we have passed the time they were applicable for.

9.24 The GDB and GTB transitional AMP requirements continue to apply until the end of the first regulatory period.

9.25 We have also removed the relevant references and terms that applied only to the removed transitional requirements.

9.26 We propose removing the expired requirements to reduce the length of the ID requirements and improve their readability.

New transitional requirements to transition in the amendments proposed as part of this round of amendments

9.27 We expect to include transitional provisions to transition in the amendments proposed as part of this round of amendments. We will confirm the nature of the transitional provisions once we have decided on the amendments and had feedback from suppliers on where it would be beneficial to have transitional provisions.

9.28 We are considering transitional provisions for the following disclosures:

9.28.1 Powerco's GDB year-end disclosures for the disclosure year 2014

9.28.2 MDL's year-end disclosures for the disclosure year 2014

9.28.3 Disclosure of prior year ROIs (Schedule 2)

9.28.4 Notification of errors in previously disclosed information (clause 2.12.1)

9.29 We welcome feedback from suppliers of any other transitional provisions that may be required to allow transition in the amendments to ID requirements.

Powerco and MDL's 2014 year-end disclosures

9.30 We are considering providing transitional provisions to Powerco (GDB only) and MDL for their 2014 year end disclosures. Powerco (GDB only) and MDL are required to

disclosure their 2014 year-end disclosures before the 31 March 2015 and 30 June 2015 respectively. We envisage that the transitional provisions will allow Powerco (GDB only) and MDL to apply the requirements applicable to them prior to the proposed amendments.

Disclosure of prior year ROI's

- 9.31 Schedule 2 of the ID requirements require the disclosure of the ROI for the previous 2 years. We see benefit in requiring these disclosures to be updated to align to the new requirements. However, we do not want to over burden suppliers.
- 9.32 We welcome feedback from interested parties on the costs and benefits of disclosing the prior year ROI disclosures consistent with the amended ID requirements.

Notification of errors – transitional provisions

- 9.33 We are considering a transitional requirement for the notification of errors in previously disclosed information (clause 2.12.1). The proposed requirements require suppliers to disclose information within a month of identifying the error. A transitional provision could extend the time required to make this disclosure to allow suppliers sufficient time to disclose errors they are already aware of.

10. How you can provide your views

Purpose of this chapter

10.1 This chapter sets out how you can provide your views on this round of proposed amendments to the ID requirements.

Timeframe for submissions

10.2 We welcome your views on the amendments proposed in this paper.

10.2.1 Submissions are due by 5pm, Friday 5 December 2014.

10.2.2 Cross-submissions are due by 5pm, Friday 19 December 2014.

10.3 We do not intend to take into account any material that is submitted outside of the timeframes provided. Any party that is concerned about the time to engage with the material should contact us with a request for an extension outlining their specific concerns.

Address for submissions

10.4 Submissions should be addressed to:

Dane Gunnell (Senior Analyst, Regulation Branch)
c/o regulation.branch@comcom.govt.nz

Format for submissions

10.5 We prefer submissions in both MS Word and PDF file formats.

10.6 Please include "Submission on proposed amendments for 2015 to information disclosure determinations for electricity distribution and gas pipeline services, [DD Month] 2014" in the subject line of your email.

10.7 Where submitters propose an alternative to the draft decision, we encourage submitters to outline their reasoning and proposed change. We prefer proposed changes be identified as track changes to extracts of the original or draft determination.

Requests for confidentiality

- 10.8 We encourage full disclosure of submissions so that all information can be tested in an open and transparent manner, but we offer the following guidance.
- 10.8.1 If it is necessary to include confidential material in a submission, both confidential and public versions of the submission should be provided.
- 10.8.2 The responsibility for ensuring that confidential information is not included in a public version of a submission rests entirely with the party making the submission.
- 10.9 We request that you provide multiple versions of your submission if it contains confidential information or if you wish for the published electronic copies to be 'locked'. This is because we intend to publish all submissions and cross-submissions on our website. Where relevant, please provide both an 'unlocked' electronic copy of your submission, and a clearly labelled 'public version'.

Next steps in our process

- 10.10 We intend to make final decisions on the proposed amendments by 31 March 2015 in time for the amended information disclosure determinations to apply to the next EDB year-beginning and year-end disclosures.⁷⁰
- 10.11 At this stage, we do not intend to hold a technical consultation prior to our final decisions. We will review this position after considering submissions, and notify parties of any change. We welcome feedback on the cost and benefits of having a technical consultation for this round of proposed amendments.

⁷⁰ EDBs are required to disclose their year-beginning disclosures prior to the start of the disclosure year (1 April 2015) and their year-end disclosures for the year ended 31 March 2015 5 months after the end of the disclosure year (31 August 2015).

Attachment A: Comparison of ID and price-quality path cash flow timing assumptions

Building block item	Timing assumptions			
	Mid-year ROI	Monthly ROI	DPP draft decision	CPP IM
Line charge revenue	Evenly during the year but recognising its received 20th of the following month	Each month revenue accrued but recognising its received 20th of the following month	Evenly during the year but recognising its received 20th of the following month	Evenly during the year but recognising its received 20th of the following month
Operating expenditure	Evenly during the year	Each month costs incurred	Evenly during the year	Evenly during the year
Commissioned assets	Evenly during the year	Commissioning month	Evenly during the year	Commissioning date
Disposed assets	Evenly during the year	Disposal month	Year-end	Disposal date
Tax	Evenly during the year	Evenly during the year	Evenly during the year	Evenly during the year
Other regulatory income	Evenly during the year	Each month income accrued	Evenly during the year	Evenly during the year
Term credit spread differential allowance	Year-end	Year-end	Year-end	Evenly during the year

Attachment B: List of pass through and recoverable costs

B1 The following tables outline the price-quality regulation pass through and recoverable costs and notes how they are proposed to be treated in the ID requirements.

Pass through costs	Treatment in ID	IM clause reference		
		EDB	GDB	GTB
clause 3.1.2				
Rates	Cost	(2)(a)	(2)(a)	(2)(a)
Commerce Act levies	Cost	(2)(b)(i)	(2)(b)(i)	(2)(b)(i)
Industry levies	Cost	(1)(b)(i) and (2)(b)(i)-(iii)	(1)(b)(i) and (2)(b)(i)-(iv)	(1)(b)(i) and (2)(b)(i)-(iii)
CPP specified pass through costs	Cost	(1)(b)(ii)	(1)(b)(ii)	(1)(b)(ii)
Cost – pass through cost recognised in the ID cost base				

Recoverable Costs	Treatment in ID	IM clause reference		
		EDB	GDB	GTB
Clause 3.1.3				
Net recoverable costs allowed under incremental rolling incentive scheme	Financial Incentive	(1)(a)	(1)(a)	(1)(a)
Electricity lines service charge payable to Transpower	Cost	(1)(b)	n/a	n/a
Transpower new investment contract charges	Cost	(1)(c)	n/a	n/a
System operator services	Cost	(1)(d)	n/a	n/a
Distributed generation allowance	Cost	(1)(e)	n/a	n/a
Purchased assets - avoided transmission charges	Financial incentive	(1)(f)	n/a	n/a
Input methodology claw-back	Wash-up	(1)(g)	(1)(b)	(1)(b)
Balancing gas costs	Cost	n/a	n/a	(1)(c)
Recoverable customised price-quality path costs	Wash-up	(1)(h)-(l)	(1)(c)-(g)	(1)(d)-(h)
Energy efficiency and demand incentive allowance	Financial incentive	(1)(m)*	n/a	n/a
Catastrophic event allowance	Wash-up	(1)(n)*	n/a	n/a
Extended reserves allowance	Cost	(1)(o)*	n/a	n/a

Recoverable Costs	Treatment in ID	IM clause reference		
		EDB	GDB	GTB
Clause 3.1.3				
Quality incentive adjustment	Financial incentive	(1)(p)*	n/a	n/a
Capex wash-up adjustment	Wash-up	(1)(q)*	n/a	n/a
Transmission asset wash-up adjustment	Wash-up	(1)(r)*	n/a	n/a
2013-15 NPV wash-up allowance	Wash-up	(1)(s)*	n/a	n/a
Reconsideration event allowance	Wash-up	(1)(t)*	n/a	n/a

* - References with an asterisk are to the clauses proposed as part of the electricity price-quality path reset process.⁷¹

Cost – recoverable cost recognised in the ID cost base

Financial incentive – recoverable cost disclosed as a financial incentive in Schedule 2 alongside the ROI profitability assessment

Wash-up – recoverable cost not recognised in information disclosure

⁷¹ Commerce Commission “Draft Electricity Distribution Input Methodology Amendments Determination 2014”, above n 25.