

# Commerce Commission

## Electricity Distribution and Gas Pipeline Businesses

Morning sessions

14 March 2014

Presentation to Information Disclosure Workshop



# Agenda

## *Registration and tea/coffee from 9.00am*

- 9.30am** Introduction
- 10am** Regulatory Asset Base (RAB) *(with break)*
- 11.30am** Network asset information and classification
- 12pm** **Lunch**
- 1pm** Purpose and benefit of disclosed information
- 1.30pm** Related party transactions
- 2.00pm** Regulatory taxation *(with break)*
- 3.30pm** Compliance overview
- 3.45pm** Conclusion and questions



# Commerce Commission

## Welcome and housekeeping

March 2014

Presentation to Information Disclosure Workshop



# Welcome and housekeeping



- Welcome
- Housekeeping
- Structure of the day
- Presentations / presenters





# Goal of the workshop



We are looking to improve suppliers and auditors understanding of certain aspects of the ID Requirements (Regulatory asset base, related parties, regulatory taxation and asset classification) in order to improve the quality of the information disclosed under the ID Requirements.



# Commerce Commission

## Message from General Manager, Regulation Presentation to Information Disclosure Workshop

March 2014

Dr John Hamill



# Commerce Commission

## How the day will work & supplier issues Presentation to Information Disclosure Workshop

March 2014

Simon Wakefield



# Contents

- How we'd like the day to work
- What you can do
- Issues raised by suppliers



# How we'd like the day to work



## Intended to be interactive

- Worked examples, ask questions
- We will try to answer questions but may need to respond later to some questions, so we can be technically accurate and consistent with IMs and other guidance provided
- We will record questions and address these through the issues register process





# What you can do

- Workshop is not the silver bullet
- Feedback from first round of disclosures has given us the topics for today
- Interested in understanding:
  - where more assistance / support is required
  - how we can improve our process



# What you can do

## Other avenues for information

- Interact with peers, consultants and industry bodies to get a better understanding of the requirements
- Issues register, reasons paper
- Prior workshop

<http://www.comcom.govt.nz/regulated-industries/electricity/electricity-information-disclosure/current-electricity-information-disclosure-requirements/>



# Issues raised by suppliers

## Determination applies equally to all suppliers

- 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.
- Commission balanced the benefits of greater transparency against costs of complying with the regulations



# Issues raised by suppliers

## Availability and accuracy of information

- Expectation that suppliers comply with requirements
- Includes implementation of systems to meet requirements
- Tailored requirements to industry feedback when set requirements but with experience still open-minded to further refinement
  - Potential role for an ENA Compliance working group
- Small suppliers could consider out-sourcing some back office functions
- Consider adding additional commentary particularly where significant assumptions have been applied or there are not robust processes in compiling information.



# Issues raised by suppliers

## Amendments to the Determination

- Not intended at this stage to significantly revise the requirements
- Intention to consult on proposed timing
- Continue to use existing Determination
- Continue to use issues register





# Issues raised by suppliers

## Suppliers may be interpreting requirements inconsistently

- Reduces the value of information produced and the analysis performed on this information
- Where you are aware of this, please advise us



# Issues raised by suppliers

## The Commission's response to non-compliance

- Our priority in the initial years of the ID regulatory period is to assist suppliers in understanding the requirements of the new regime in order to improve levels of compliance.
- Our focus will be on education but we reserve the right to take enforcement action where necessary.
- Our desire is that the information is available and people have confidence in the information provided under the ID requirements.



# Issues raised by suppliers

## Re-disclosure

- We would encourage you to contact us in regards to errors which you have identified.
- We can then discuss the appropriate next steps regarding disclosure.
- Whilst there is value in updating your current disclosure with corrected information, these adjustments often aren't applied with the same level of review – director and audit certification.
- Where adjustments are performed this should be flagged for interested users



# Issues raised by suppliers

## Compliance and enforcement guidelines

- Will likely be similar to the enforcement response guidelines issued by Competition Branch
- Other initiatives which will support suppliers in meeting their requirements:
  - Identifying your obligations
  - Providing guidance
  - Providing feedback, findings and improvements following submission of ID returns



# Commerce Commission

## Regulatory Asset Base (RAB)

### Selected Issues

March 2014

Presentation to Information Disclosure Workshop





# What we will cover in this session

- Recap of basic concepts
- RAB compliance observations
- What is different in 2014?
- Administration – some simple checks
- Selected worked examples
  - Assets disposals and decommissioning
  - Regulatory depreciation and reporting
  - Assets acquired from another regulated supplier
- Questions?



# Recap of basic concepts

- Where are asset values used?
- Regulated asset base (RAB)
- Interaction with cost allocation
- RAB roll-forward
  - Revaluations
  - Depreciation
  - Asset acquisitions and disposals
- Regulatory record keeping



# Where are asset values used?

- Relevant to:
  - Electricity      EDBs – exempt and non-exempt
  - Gas              GDBs and GTBs
- Input methodologies were required for:
  - “the valuation of assets, including depreciation and the treatment of revaluations” – s 52T(1)(a)(ii) Commerce Act 1986
- Price-monitoring (ID) requires transparency of revenue components, eg:
  - Opening RAB (Investment value)
  - Depreciation (Expense)
  - Revaluations (Income)
- Compare this to price-setting – requires quantification of ‘building blocks’



# Where are asset values used in ID?

## Schedule 2 of ID determination:

2(ii): Information Supporting the ROI			(\$000)
24			
25			
26	Total opening RAB value		
27	plus Opening deferred tax		
28	Opening RIV		
29			
30	Operating surplus / (deficit)		
31	less Regulatory tax allowance		
32	less Assets commissioned		
33	plus Asset disposals		
34	<b>Notional net cash flows</b>		
35			
36	Total closing RAB value		
37	less Adjustment resulting from asset allocation		
38	less Lost and found assets adjustment		
39	plus Closing deferred tax		
40	<b>Closing RIV</b>		
41			
42	<b>ROI—comparable to a vanilla WACC</b>		
43			
44	Leverage (%)		44%
45	Cost of debt assumption (%)		
46	Corporate tax rate (%)		
47			
48	<b>ROI—comparable to a post tax WACC</b>		

Assets commissioned

Asset disposals

Total closing RAB value

Total opening RAB value



# Where are asset values used in ID?

## Schedule 3 of ID determination:

			(\$000)
7	<b>3(i): Regulatory Profit</b>		
8	<b>Income</b>		
9	Line charge revenue		
10	<i>plus</i> Gains / (losses) on asset disposals	Gains / (losses) on asset disposals	
11	<i>plus</i> Other regulated income (other than gains / (losses) on asset disposals)		
12			
13	<b>Total regulatory income</b>		
14	<b>Expenses</b>		
15	<i>less</i> Operational expenditure		
16			
17	<i>less</i> Pass-through and recoverable costs		
18			
19	<b>Operating surplus / (deficit)</b>		
20			
21	<i>less</i> Total depreciation	Total depreciation	
22			
23	<i>plus</i> Total revaluation	Total revaluation	
24			
25	<b>Regulatory profit / (loss) before tax &amp; term credit spread differential allowance</b>		
26			
27	<i>less</i> Term credit spread differential allowance		
28			
29	<b>Regulatory profit / (loss) before tax</b>		
30			
31	<i>less</i> Regulatory tax allowance		
32			
33	<b>Regulatory profit / (loss)</b>		





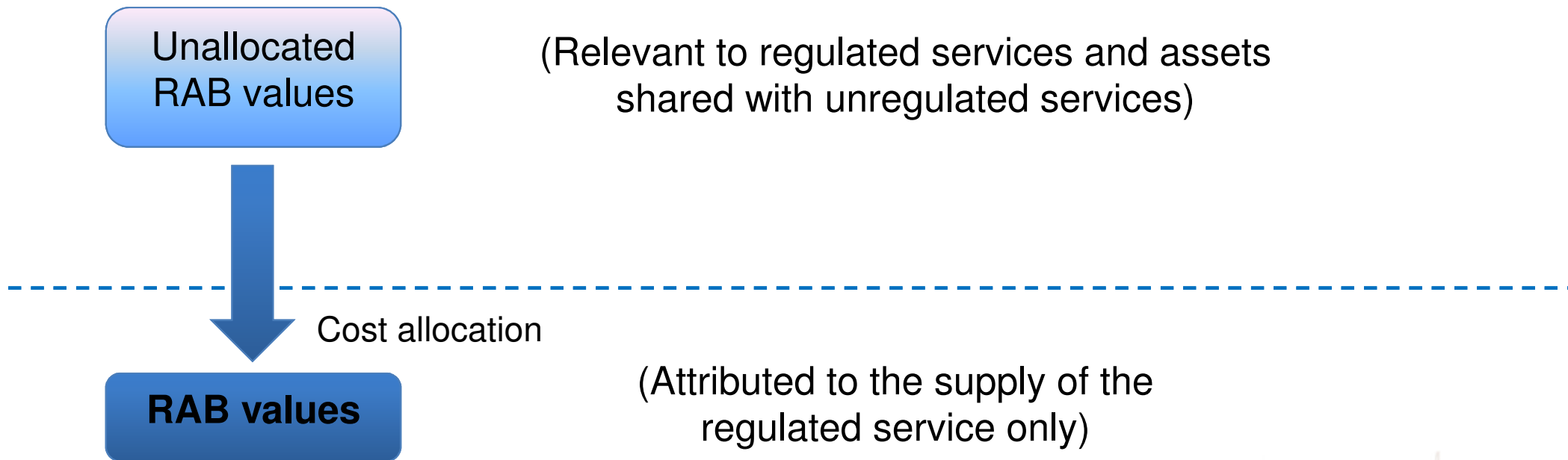
# Regulatory Asset Base (RAB)

- The RAB is a regulatory construct
  - RAB bears close resemblance to financial reporting of assets
  - Methodology is Indexed Historic Cost (IHC)
- Individual or aggregated assets?
  - IMs require individual assets to be accounted for
  - ID generally requires aggregated asset presentation
- Initial values for all assets set as at 1 April 2009
  - This is the deemed historic cost for IHC methodology
  - Take the disclosed asset values under prior information disclosure
  - Note that those values based mostly on prior ODV valuations

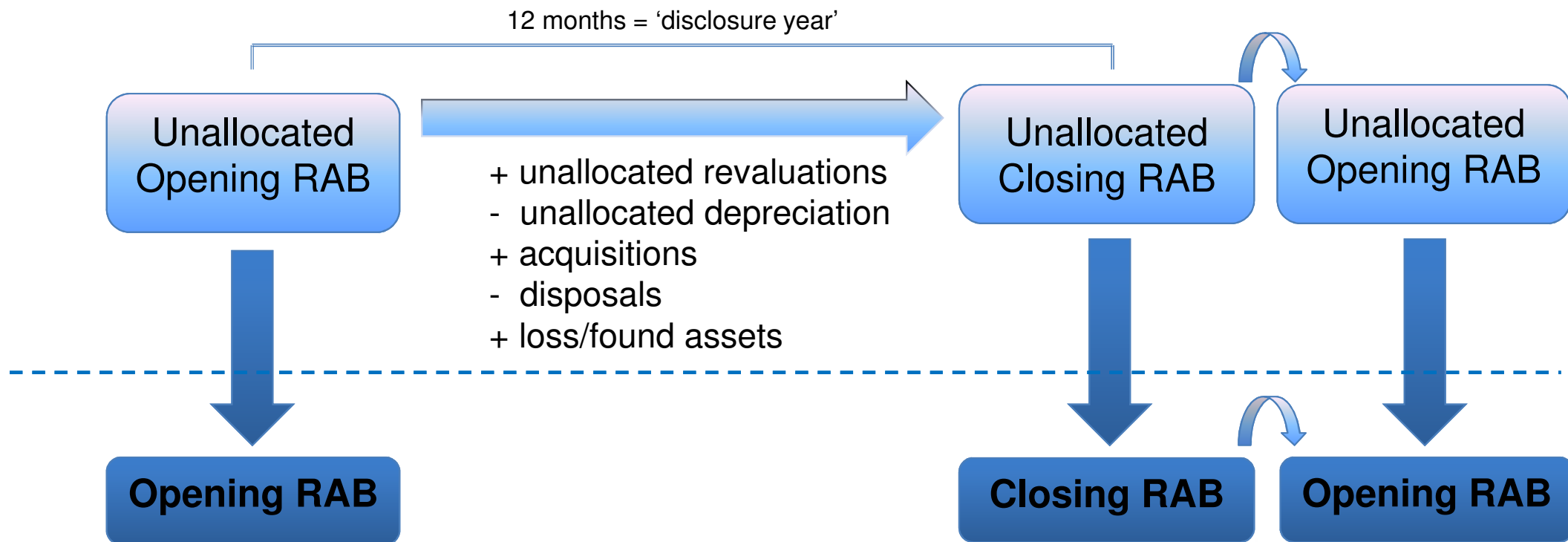


# Unallocated and allocated values

- Relationship with cost allocation



# The RAB 'roll forward'

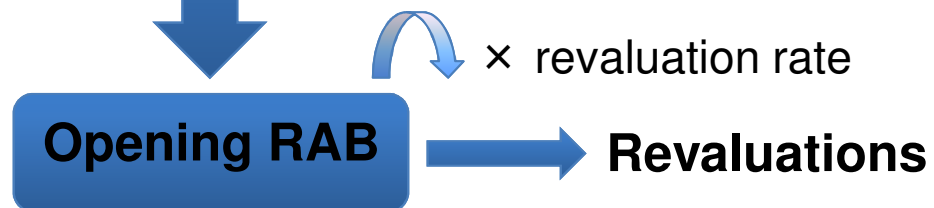
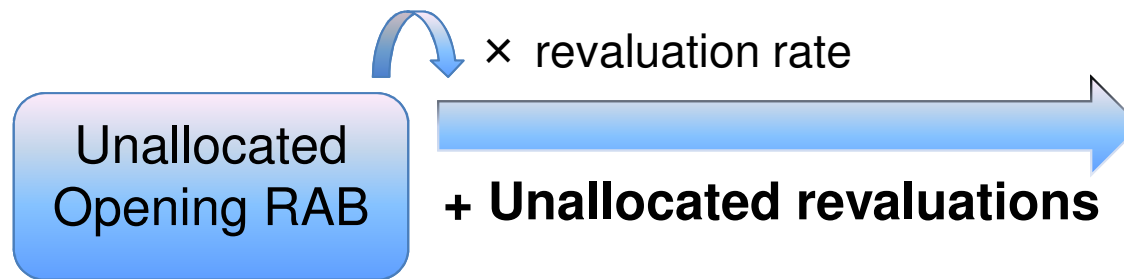


# Revaluations

- The ‘indexed’ part of IHC methodology
- Carrying value indexed annually by the change in the Consumer Price Index (CPI)
- Multiply opening RAB value by ‘revaluation rate’
  - Revaluation rate is annual change in CPI



# Revaluations (cont)



# Revaluations (cont)

- Revaluation must be treated as income for the purposes of determining profitability (ROI)
- Applies to all assets (network and non-network)
- No revaluations for:
  - fully depreciated assets
  - disposed assets
  - lost assets
- No periodic revaluations like GAAP

**Tip: See issue register #262 for supplier question**





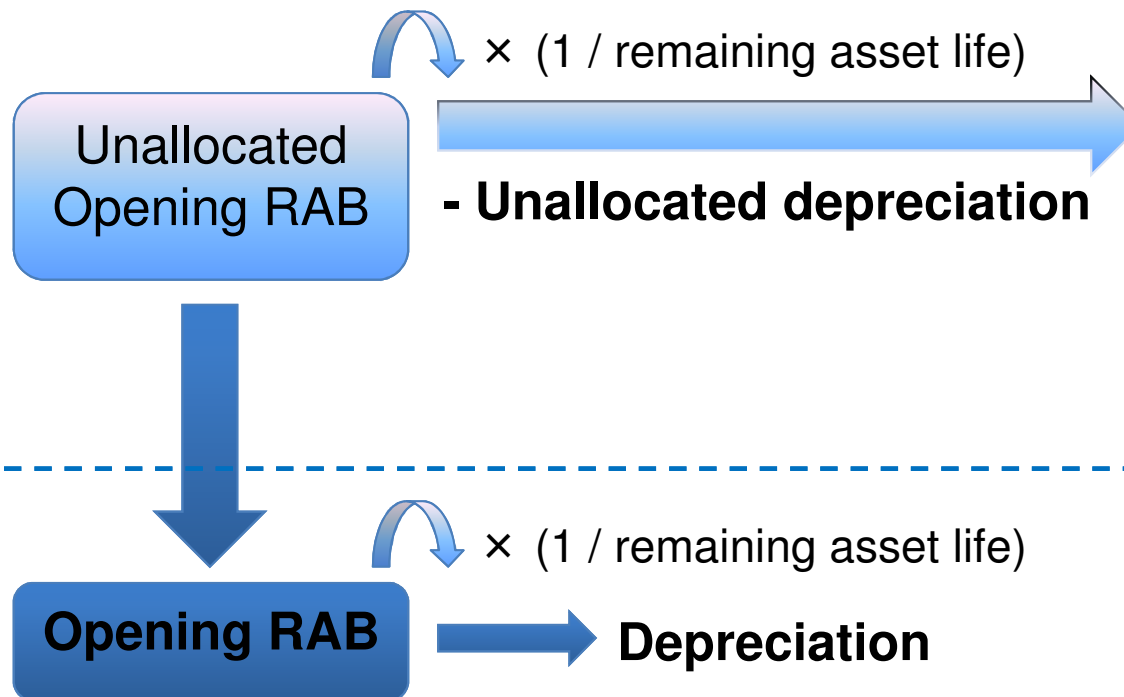
# Depreciation

- Allocation of capitalised costs over time
  - ‘Diminution in an asset’s remaining service life potential’
- Conceptually similar to GAAP and tax concepts
- Very simple methodology – straight line:
  - Remaining asset life
  - Opening RAB value
- Nil depreciation for land, easements
- Depreciation for network spares starts only when GAAP commences
- Asset lives dealt with in our practical examples

**Tip: See issue register #241 for  
supplier question**



# Depreciation (cont)



**Tip: See issue register #334 for  
supplier question**



# Asset acquisitions and disposals

- Rules are more prescriptive than prior ID regime
- ‘Commissioning’: means used by a supplier to provide services
- GAAP cost applies generally
  - Incurred in getting to ‘location and condition’
  - foreign currency
  - cost of financing (a limit is placed on GAAP interest)
- Nil cost for some intangibles, easement land, unnecessary/expensed spares
- Cost is limited for easements, previously regulated assets, related party acquisitions

**Tip: See issue  
register #198 for  
supplier question**



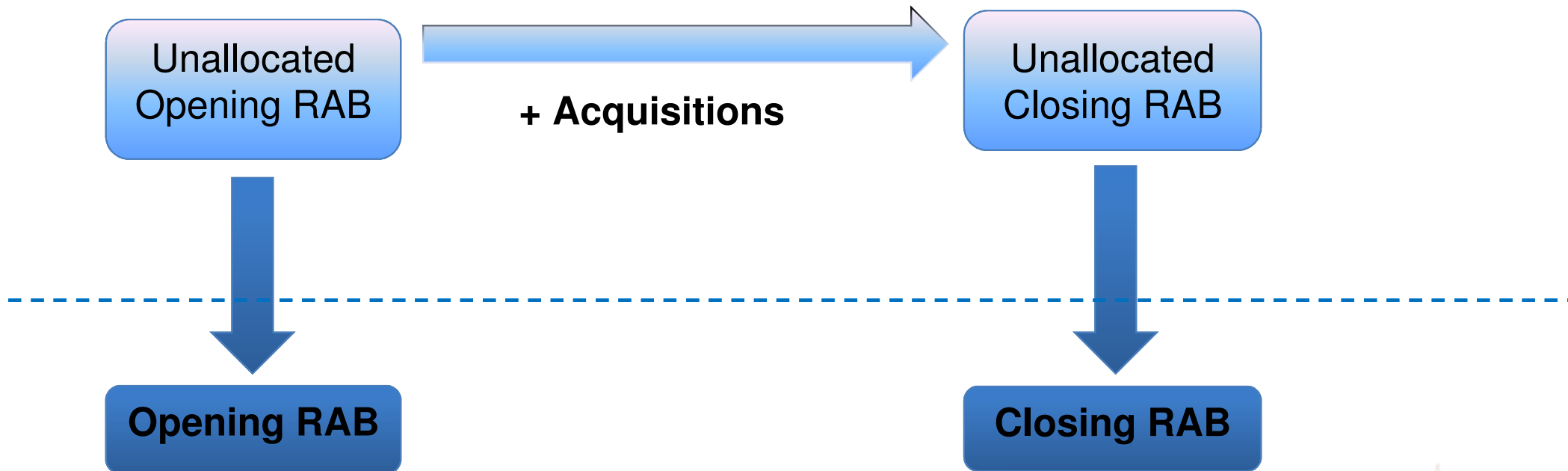
# Asset acquisitions and disposals

- Capital contributions must reduce an asset cost
- Vested assets are recorded at cost to supplier (could be nil)
- Concept of a lost or found asset:
  - **Lost asset** is an asset recorded in the RAB and acquired since 2009 but determined never to have been used to provide regulated service
  - **Found asset** is an asset never recorded in the RAB but determined to have been commissioned after 2009



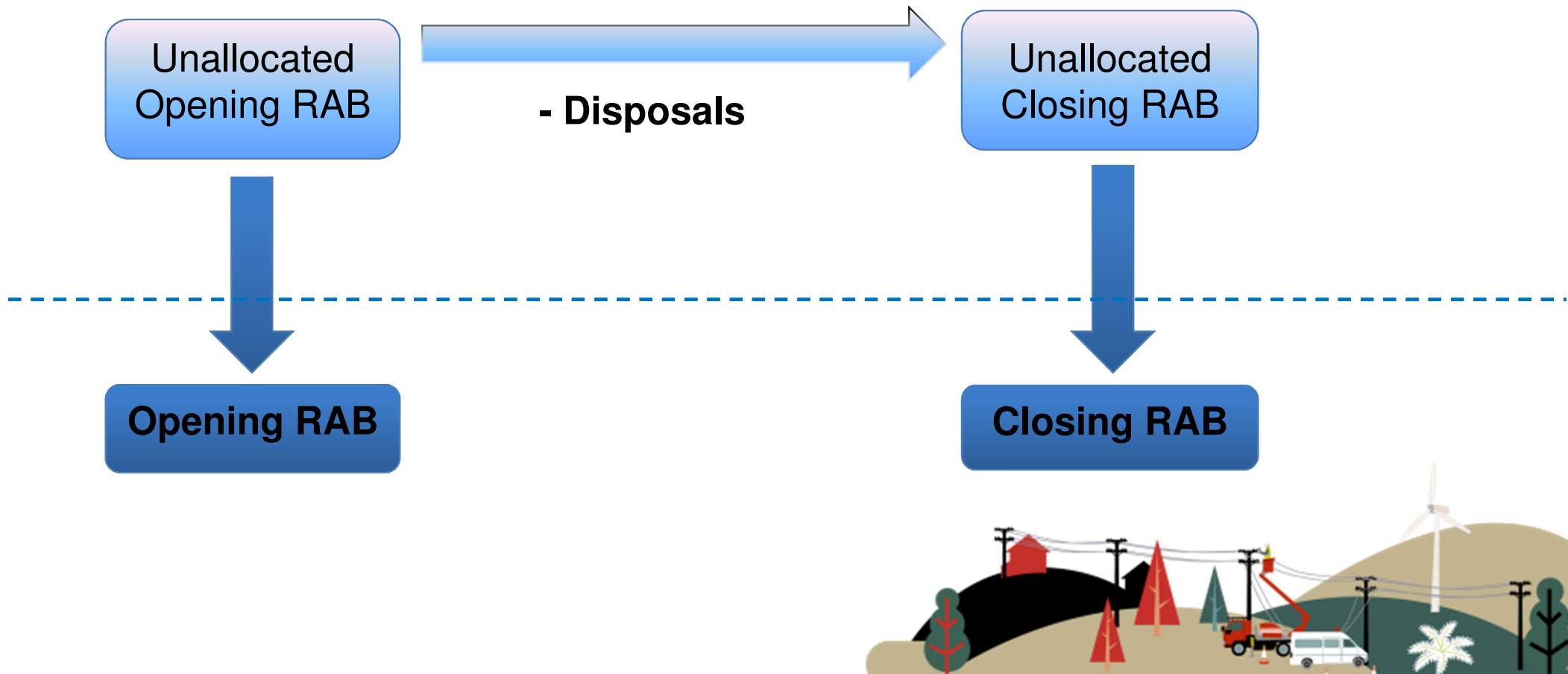
# Asset acquisitions

- Where do they fit in?



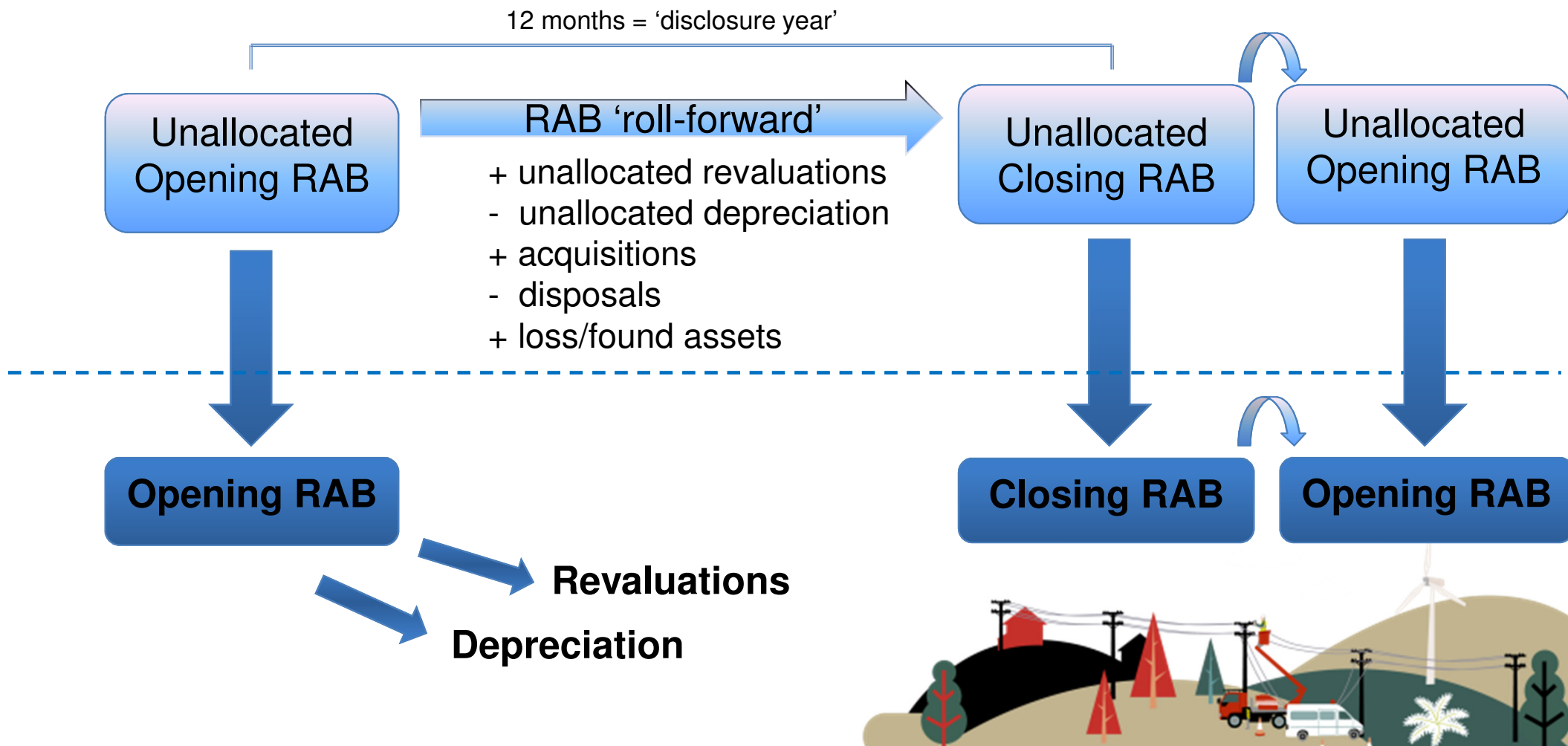
# Asset disposals

- Where do they fit in?





# Just to recap ...



# Regulatory record keeping

- Flexibility in tracking regulatory values (vs GAAP or tax)
- Determined by own governance processes and assurance requirements
- Could adapt prior regulatory records
- Could make the case for a parallel system



# RAB compliance observations

- Based on our experience with 2013 EDB disclosures
- Inconsistencies with previous information disclosed
  - Initial RAB
  - Assets Commissioned
- Revaluations
- 2009 Works under construction (rolled-forward)
  - If suppliers did not complete in schedule 5h, roll-forward correct amount in 2014 disclosures in schedule 4(iv)
- If intending to disclose information that is not consistent with previous RAB information, please contact the Commission



# What is different in 2014?

- Schedule 5h and 5i no longer required
- Schedule 4(vii) disclosure by asset category must be completed

107 **4(vii): Disclosure by Asset Category**

108 (\$'000 unless otherwise specified)

	Subtransmissi on lines	Subtransmissi on cables	Zone substations	Distribution and LV lines	Distribution and LV cables	substations and transformers	Distribution switchgear	Other network assets	Non-network assets	Total
110 <b>Total opening RAB value</b>	54,255	42,654	92,544	110,489	292,478	95,878	89,456	12,489	22,000	812,243
111 <i>less</i> Total depreciation	2,200	1,411	4,338	4,588	9,614	3,201	4,249	442	3,536	33,579
112 <i>plus</i> Total revaluations	464	384	756	865	2,354	854	724	152	243	6,796
113 <i>plus</i> Assets commissioned	2,656	5,644	5,465	4,265	8,954	4,655	3,545	2,876	7,860	45,920
114 <i>less</i> Asset disposals	-	-	-	-	-	-	-	-	-	-
115 <i>plus</i> Lost and found assets adjustment	-	-	-	-	-	-	-	-	-	-
116 <i>plus</i> Adjustment resulting from asset allocation	-	-	-	-	-	-	-	-	-	-
117 <i>plus</i> Asset category transfers	-	-	-	-	-	-	-	-	-	-
118 <b>Total closing RAB value</b>	55,175	47,271	94,427	111,031	294,172	98,186	89,476	15,075	26,567	831,380
119 <b>Asset Life</b>										
121 Weighted average remaining asset life	35	38	34	31	33	37	25	35	23	(years)
122 Weighted average expected total asset life	58	47	50	54	44	52	34	40	28	(years)



# 4(vii): Disclosure by asset category

- Definitions of asset categories in clause 1.4 and schedule 16 of ID Determination
- ‘Other network assets’ should be used only if other network categories do not apply

107 **4(vii): Disclosure by Asset Category**

108 (\$'000 unless otherwise specified)

	Subtransmissi on lines	Subtransmissi on cables	Zone substations	Distribution and LV lines	Distribution and LV cables	substations and transformers	Distribution switchgear	Other network assets	Non-network assets	Total
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116 <i>plus</i> Adjustment resulting from asset allocation	-	-	-	-	-	-	-	-	-	-
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121 Weighted average remaining asset life	35	38	34	31	33	37	25	35	23	(years)
122 Weighted average expected total asset life	58	47	50	54	44	52	34	40	28	(years)

**Tip: See issue register #209, 230 and 258 for supplier questions**



# Administration – some simple checks



- RAB roll-forward (2010-2013) in Schedule 4(i) consistent with 2013 disclosure
- Allocated RAB always equal or less than Unallocated RAB
- Revaluations
  - CPI values directly taken from Statistics NZ CPI table (SE9A Index)
  - No GST adjustment required
- Works under construction (closing balance = opening for next year)
- 4(vii): Disclosure by Asset Category
  - Totals consistent with current year RAB totals in schedules 4(i) and 4(ii)
  - Asset category transfers total = nil



# Selected worked examples

- Examples based on requests from suppliers
  - Asset disposals and decommissioning
  - Regulatory depreciation and reporting
  - Assets acquired from another regulated supplier





# Asset disposals and decommissioning

- We will cover:
  - When do assets leave the RAB?
  - Calculation of gain or loss
- Definition of “disposed asset” (clause 1.1.4 of IMs):

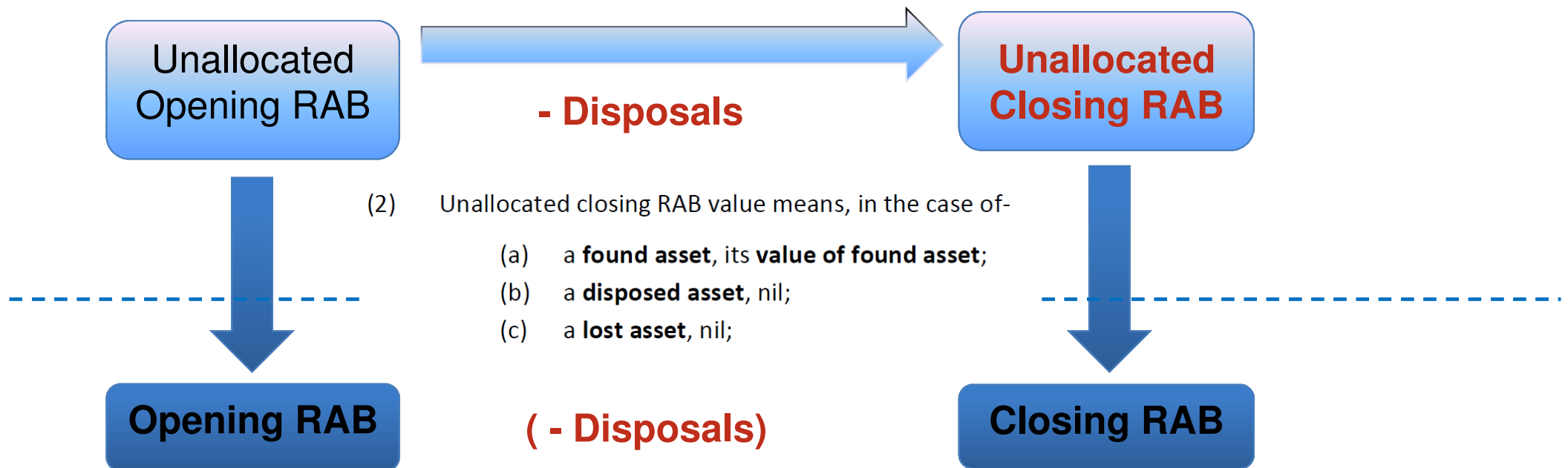
an asset that, in the **disclosure year** in question, has been sold or transferred, or has been irrecoverably removed from the **EDB's** possession without consent but is not a **lost asset**

**Tip: The definition of “disposed” differs when determining forecast amounts under DPP or CPP**



# Asset disposals

How does a disposed asset exit the RAB?



Tip: See issue register #263 for supplier question



# Asset disposals

## 4(i): Regulatory Asset Base Value (Rolled Forward)

	RAB CY-4 (\$000)	RAB CY-3 (\$000)	RAB CY-2 (\$000)	RAB CY-1 (\$000)	RAB CY (\$000)
Total opening RAB value		-	-	-	-
<i>less</i> Total depreciation					-
<i>plus</i> Total revaluations					-
<i>plus</i> Assets commissioned					-
<i>less</i> Asset disposals					-
<i>plus</i> Lost and found assets adjustment					-
<i>plus</i> Adjustment resulting from asset allocation					-
Total closing RAB value		-	-	-	-

**Asset disposals**

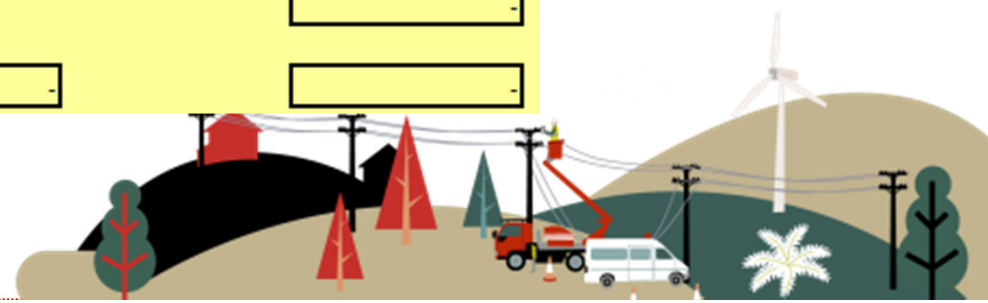
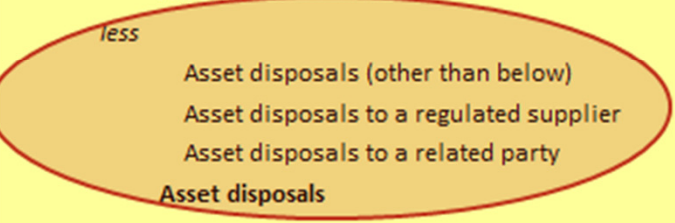


# Asset disposals

## 4(ii): Unallocated Regulatory Asset Base

	Unallocated RAB *		RAB	
	(\$000)	(\$000)	(\$000)	(\$000)
Total opening RAB value				-
<i>less</i> Total depreciation		-		-
<i>plus</i> Total revaluations		-		-
<i>plus</i> Assets commissioned (other than below)				
Assets acquired from a regulated supplier				
Assets acquired from a related party				
<b>Assets commissioned</b>		-		-
<i>less</i> Asset disposals (other than below)				
Asset disposals to a regulated supplier				
Asset disposals to a related party				
<b>Asset disposals</b>		-		-
<i>plus</i> Lost and found assets adjustment				
<i>plus</i> Adjustment resulting from asset allocation				-
<b>Total closing RAB value</b>				-

**Asset disposals**



# Asset disposals

## 4(vii): Disclosure by Asset Category

### Asset disposals

(\$000 unless otherwise specified)

	Subtransmission lines	Subtransmission cables	Zone substations	Distribution and LV lines	Distribution and LV cables	Distribution substations and transformers	Distribution switchgear	Other network assets	Non-network assets	Total
Total opening RAB value										-
less Total depreciation										-
plus Total revaluations										-
plus Assets commissioned										-
less Asset disposals										-
plus Lost and found assets adjustment										-
plus Adjustment resulting from asset allocation										-
plus Asset category transfers										-
<b>Total closing RAB value</b>	-	-	-	-	-	-	-	-	-	-
<b>Asset Life</b>										
Weighted average remaining asset life										(years)
Weighted average expected total asset life										(years)



# Asset disposals

2(ii): Information Supporting the ROI		(\$000)
	Total opening RAB value	-
<i>plus</i>	Opening deferred tax	-
	Opening RIV	-
	Operating surplus / (deficit)	-
<i>less</i>	Regulatory tax allowance	-
<i>less</i>	Assets commissioned	-
<i>plus</i>	Asset disposals	-
	<b>Notional net cash flows</b>	-
	Total closing RAB value	-
<i>less</i>	Adjustment resulting from asset allocation	-
<i>less</i>	Lost and found assets adjustment	-
<i>plus</i>	Closing deferred tax	-
	<b>Closing RIV</b>	-
	<b>ROI—comparable to a vanilla WACC</b>	-
	Leverage (%)	44%
	Cost of debt assumption (%)	
	Corporate tax rate (%)	
	<b>ROI—comparable to a post tax WACC</b>	-

Asset disposals



# Asset disposals – gain or loss

Causes a gain or loss to be calculated:

3(i): Regulatory Profit		
Income		
	Line charge revenue	-
<i>plus</i>	Gains / (losses) on asset disposals	
<i>plus</i>	Other regulated income (other than gains / (losses) on asset disposals)	
Total regulatory income		-

Gains / (losses) on asset disposals

Effectively accelerates the return of capital (ie, depreciation)





# Asset disposals – gain or loss

## Simple formula

Gain or loss = proceeds – carrying value of asset

where:

proceeds = net amount received from disposal

carrying value = (opening RAB value – depreciation)



# Asset disposals – practical examples

For each of the following examples, consider:

- Has a disposal occurred?
- What gain or loss should be reported for regulatory purposes?



# Asset disposals – practical examples

1. A transformer is sold to a Fijian company for \$60. Opening RAB in year of sale is \$50, depreciation in that year is \$30.

Disposal? **Yes** – sold. Gain or loss:  $\$60 - (\$50 - \$30) = \$60 - \$20 = \underline{\$40}$

## Variations:

- Sale price is only \$10  
Gain or loss:  $\$10 - (\$50 - \$30) = \$10 - \$20 = \underline{-\$10}$
- Sale is of a motor vehicle to sister company (eg, vegetation management)  
ID determination has related party valuation rules for determining sales proceeds  
See related party transaction session

an asset that, in the **disclosure year** in question, has been sold or transferred, or has been irrecoverably removed from the **EDB's** possession without consent but is not a **lost asset**

# Asset disposals – practical examples

2. A section of high pressure pipe is taken to a scrap merchant. The merchant pays \$1. Opening RAB is \$50, depreciation is \$30.

Disposal? **Yes** – sold. Gain or loss:  $\$1 - (\$50 - \$30) = \$1 - \$20 = \underline{-\$19}$

Variation:

- The gas supplier incurs \$40 costs to decommission and transport the pipe.

Gain/loss:  $\$(1 - \$40) - (\$50 - \$30) = -\$39 - \$20 = \underline{-\$59}$

3. Brass fittings are stolen from a gas supplier and are not recovered. Opening RAB is \$50, depreciation is \$30

Disposal? **Yes** – stolen. Gain or loss:  $\$0 - (\$50 - \$30) = \$0 - \$20 = \underline{-\$20}$

an asset that, in the **disclosure year** in question, has been sold or transferred, or has been irrecoverably removed from the **EDB's** possession without consent but is not a **lost asset**

# Asset disposals – practical examples

4. A section of line is swept away in a flood and not recovered. The line is not insured. Opening RAB is \$50, depreciation is \$30.

Disposal? **Yes** – irrecoverably removed. Gain or loss:  $\$0 - (\$50 - \$30) = \$0 - \$20 = \underline{-\$20}$

Variation:

- The line is only damaged in the flood and repairs are carried out to reinstate the line to its former condition.

Disposal? **No** – not irrecoverably removed. No gain or loss

5. A GIS reconciliation in 2014 identifies that pipeline sections recorded in the asset register never existed. Opening RAB is \$50, depreciation is \$30.

Disposal? **No** – is a lost asset. No gain or loss.

an asset that, in the **disclosure year** in question, has been sold or transferred, or has been irrecoverably removed from the **EDB's** possession without consent but is not a **lost asset**



# Asset disposals – practical examples



6. A transformer is decommissioned and remains in situ. Opening RAB is \$50, depreciation is \$30.

Disposal? **No** – is not sold, transferred, or irrecoverably removed. No gain or loss.

Variation:

- The transformer is removed from the network and stored at the supplier's depot.

Disposal? **No** – is not sold, transferred, or irrecoverably removed. No gain or loss.

7. Use of a pipeline section is discontinued as sufficient revenue cannot be generated from customers. Opening RAB is \$50, depreciation is \$30.

Disposal? **No** – is not sold, transferred, or irrecoverably removed. No gain or loss.

**T** an asset that, in the **disclosure year** in question, has been sold or transferred, or has been irrecoverably removed from the **EDB's** possession without consent but is not a **lost asset**



# Asset disposals – practical examples



8. GAAP values of particular assets are written down to nil due to impairments (eg, NZ IAS 36). Opening RAB is \$50, depreciation is \$30.

Disposal? **No** – is not sold, transferred, or irrecoverably removed. No gain or loss.

9. An asset is written off for tax purposes. Opening RAB is \$50, depreciation is \$30.

Disposal? **No** – if not sold or transferred. No gain or loss.

**Tip: See issue register #242 for supplier question**

an asset that, in the **disclosure year** in question, has been sold or transferred, or has been irrecoverably removed from the **EDB's** possession without consent but is not a **lost asset**





# Summary of examples

- Sale (to unrelated and related purchaser)
- Scrapped (nominal value and disposal costs)
- Stolen (also insurance)
- Destroyed (and damaged)
- Lost assets
- Decommissioned/redundant assets
- Stranded assets
- Value impairments under GAAP
- Asset write-off for tax purposes

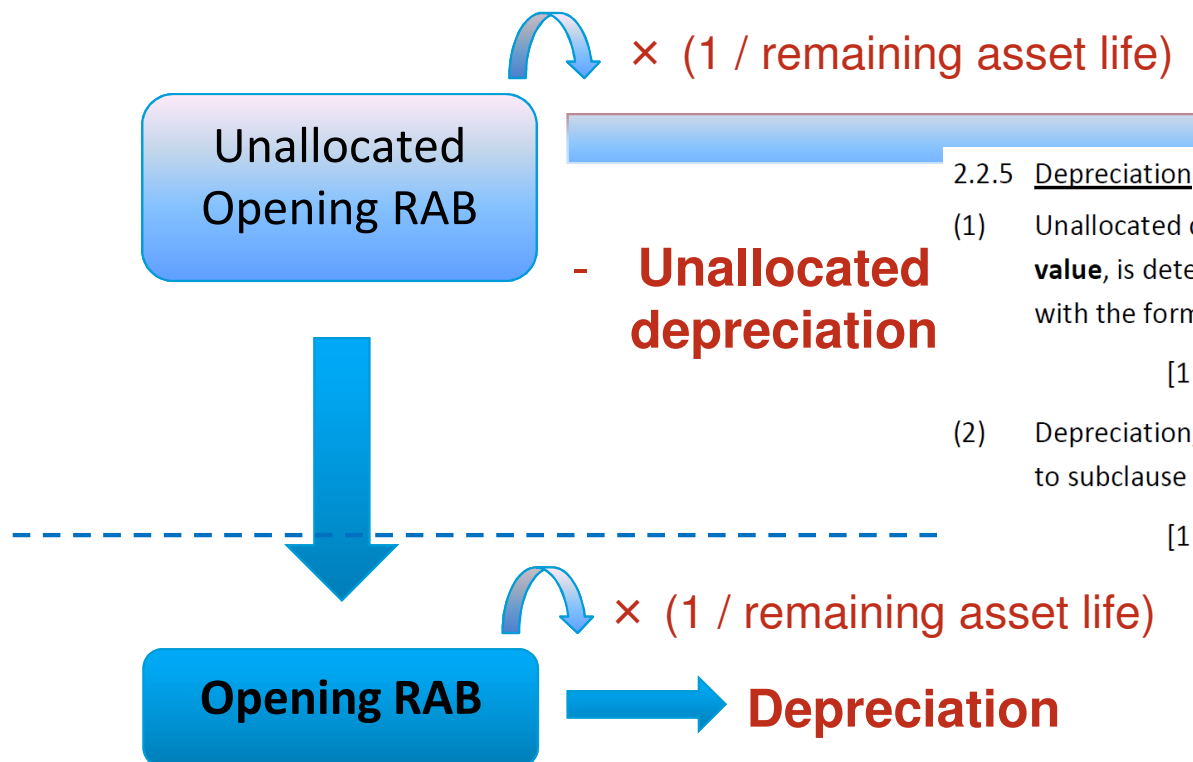


# Regulatory depreciation

Very simple method (straight line)

- Opening RAB
- Remaining asset life

**Tip: lives can be in whole or part years**



## 2.2.5 Depreciation

- (1) Unallocated depreciation, in the case of an asset with an **unallocated opening RAB value**, is determined, subject to subclause (3) and clauses 2.2.6 and 2.2.7, in accordance with the formula-

$$[1 \div \text{remaining asset life}] \times \text{unallocated opening RAB value.}$$

- (2) Depreciation, in the case of an asset with an **opening RAB value**, is determined, subject to subclause (3) and clause 2.2.6, in accordance with the formula-

$$[1 \div \text{remaining asset life}] \times \text{opening RAB value.}$$



# Regulatory depreciation

We will focus on:

- How to determine asset lives for individual assets
- Classifying depreciation for ID purposes
- Reporting the impact of changes in asset lives
- Asset lives for components



# How to determine asset lives

## Prescriptive rules in input methodologies

Situation	Asset life	IM cl. 2.2.8
Asset existing in 2009	2009 disclosures	(1)(f)
Asset acquired since 2009 or included as initial RAB adjustment	Schedule A Else, similar existing asset Else, engineer determines	(1)(e)
Extended life asset	Supplier determines	(1)(b)
Refurbished asset	Supplier determines	(1)(b)
Reduced life asset	Engineer determines	(1)(c)

**Tip: See issue register #202 and 327 for  
supplier questions**



# How to determine asset lives

Some specialised rules in input methodologies for:

Situation	Asset life	IM cl. 2.2.8
Fixed life easement	Fixed life	(1)(a)
Composite assets	Weighted average	(1)(g)
Found asset	Similar asset Else, same process for asset acquired since 2009	(1)(d)
Dedicated asset	Fixed term agreement	(2)
End of life asset for a CPP	CPP regulatory period	(4)
Alternative method for CPP	Method set in CPP	cl. 2.2.6





# Classifying depreciation for ID

Rules for classifying are in schedule 16 of ID determination

**Asset existing in 2009**

**Asset acquired since 2009 with schedule A life**

(Plus: Reduced life assets, composite assets)

Standard

**Other assets acquired since 2009**

**Found asset without a schedule A life**

**Fixed life easement**

No standard





# Classifying depreciation for ID

Rules are in schedule 16 of ID determination

## Dedicated asset

Refurbished asset      Extended life asset  
Asset acquired since 2009 similar to modified  
Found asset similar to modified

Modified

End of life asset for CPP  
Alternative method for CPP

Alternative CPP

**Tip: No supplier will have 'Alternative CPP' for 2014**



# Classifying depreciation for ID

Vast majority of assets will be 'standard'

- In existence at 2009; or
- Acquired since 2009 with a Schedule A life

Special cases should be easy to classify

- Dedicated, extended life or refurbished
- Reduced or composite

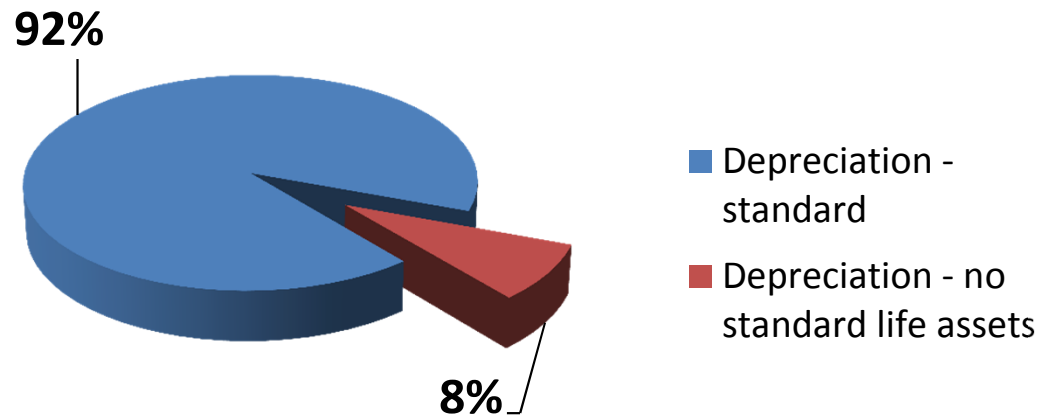
Non-network assets will likely be non-standard (rarely modified)

Suggestion that classifications in ID determination could be simplified

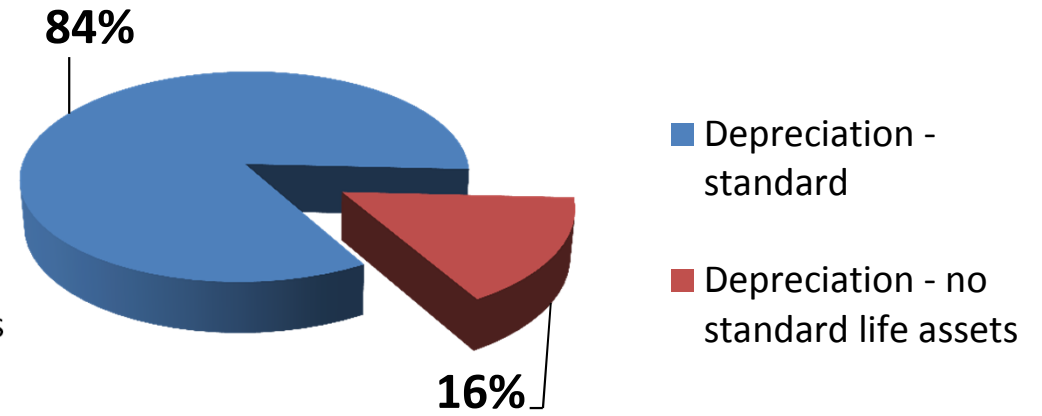


# Disclosing depreciation for ID

## EDB 2013 - Depreciation by category



## GDB 2013 - Depreciation by category (excl. Powerco)



# Disclosing depreciation for ID

## Practical examples:

- Transformer in existence at 2009 - Standard
- Medium pressure pipeline in existence at 2009 - Standard
- Electricity distribution line extension commissioned in 2013 - Standard
- Emergency crew motor vehicle bought in 2014 - No standard
- Life of coastal pipeline reduced in 2013 - Standard
- Ripple injection plant refurbished in 2014 - Modified
- Goodwill on acquisition of subsidiary in 2012 - Not part of the RAB  
so no depreciation



# Reporting the impact of changes

Changes to depreciation alter the ‘depreciation profile’

- Depreciation amounts will differ over asset lifetime
- Closing RAB values will differ also

Disclosure is required for changes made in a disclosure year for:

- Reduced life assets
- Dedicated assets
- Depreciation set under a CPP
- Asset life established using an Engineer’s report
- Composite asset with at least one of the above applied to components

**Tip: See issue register #208 for supplier question**



# Reporting the impact of changes

## Schedule 4(vi)

### 4(vi): Disclosure of Changes to Depreciation Profiles

(\$000 unless otherwise specified)

Asset or assets with changes to depreciation\*

Transformers - Dedicated asset

\* include additional rows if needed

Reason for non-standard depreciation (text entry)	Depreciation charge for the period (RAB)	Closing RAB value under 'non-standard' depreciation	Closing RAB value under 'standard' depreciation
Change in asset lives for Transformers due to change in customer contract	16	300	385

**Tip: See issue register #208 for supplier question**



# Asset lives for components

Treat components as one asset or separate assets?

- Flexibility to treat components of assets as one asset or separate assets
- If decide to treat as one asset, the components must be eligible for the same asset life

Example:

- Converter and coupling of a ripple injection plant

**Tip: See issue register #205 and 206 for supplier questions**





# Assets acquired from other suppliers

Assets are acquired from:

- other regulated entities (eg, EDBs/GPBs or Transpower)
- other regulated parts of the business (eg, between EDB/GDB divisions)

Example:

- Spur assets acquired by an EDB from Transpower on 1 April 2013 for \$100. Transpower's opening RAB in year of acquisition is \$50, depreciation is \$30. What is the EDB's cost for ID regulatory purposes?

See clause 2.2.11(1)(e) of the input methodologies.

Cost to EDB is limited to Transpower's opening RAB on day before EDB's commissioning date = \$50.



# An anomaly in the transfer value?

Must adopt depreciation life of vendor

**Tip: See issue register #207 for supplier question**

ENA have raised a concern over calculation of limit on transfer value

- Vendor claims full year depreciation
- Purchaser ignores that depreciation
- No revaluation for either vendor or purchaser

Results in over-depreciating the asset, and ignoring a year's revaluation

ENA's suggestion for fixing:

- Calculate the transfer value to include depreciation and revaluations as if the transfer hadn't occurred in the year of transfer







# Commerce Commission

## Network Asset Information and Classification

March 2014

Presentation to Information Disclosure Workshop



# What we will cover

1. Asset schedules 9a, 9b, 12a
2. Allocation by asset class
3. Data accuracy
4. Discussion: asset class allocation difficulties raised by EDBs



# 1.1 Asset Schedules

- Contain information on the quantity, age and condition of assets
- Are closely associated with the AMP:
  - Schedule 9a: Asset register—total asset numbers
  - Schedule 9b: Asset age profile—total asset numbers by age
  - Schedule 12a: Asset condition—% of assets in each condition grade
- Schedule 9a and 9b are in the historic disclosure template workbook. Accordingly, they are disclosed 5 months (6 months for GPBs) after the end of the disclosure year to allow end-of-period information to be finalised
- All schedule 12a information is to be included within the AMP. The schedule 12a template is disclosed at the same time as the AMP or, optionally, with the financial disclosures. The completed Excel template should be provided to the Commission at the same time as the AMP



# 1.1 Asset Schedules (cont)

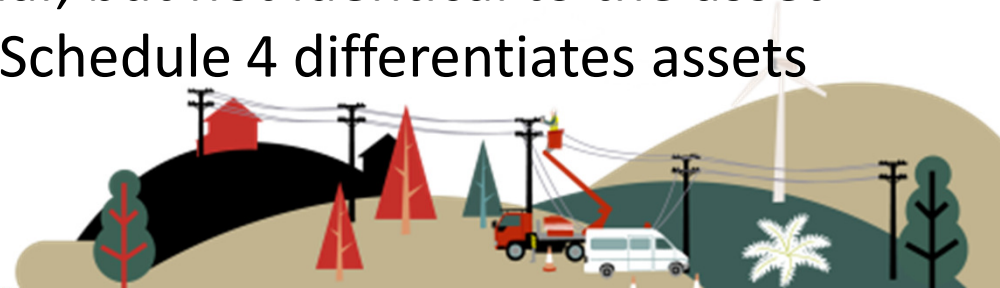
- These schedules are unaudited schedules but are director certified
- Schedules 9a and 9b are completed for the network and each sub-network (if any)
- Schedule 12a is completed for the network
- These schedules have been incorporated in the disclosures to improve the consistency, between suppliers and across time, of physical asset quantity, age and condition disclosures. Much of the information was previously contained in the narrative of the asset management plan





## 2.1 Asset Schedules—asset classes

- Identical asset classes are used in schedules 9a, 9b and 12a
- The asset classes are intended to differentiate assets that have different:
  - management strategies
  - unit costs
  - performance characteristics
- Rows are subdivided into different levels of aggregation:
  - EDBs: voltage/asset category/asset class
  - GDBs: operating pressure/asset category/asset class
  - GTBs: asset category/asset class
- Schedule 4(viii) asset categories are similar, but not identical to the asset categories in schedules 9a, 9b and 12a. (Schedule 4 differentiates assets based on asset lives etc)



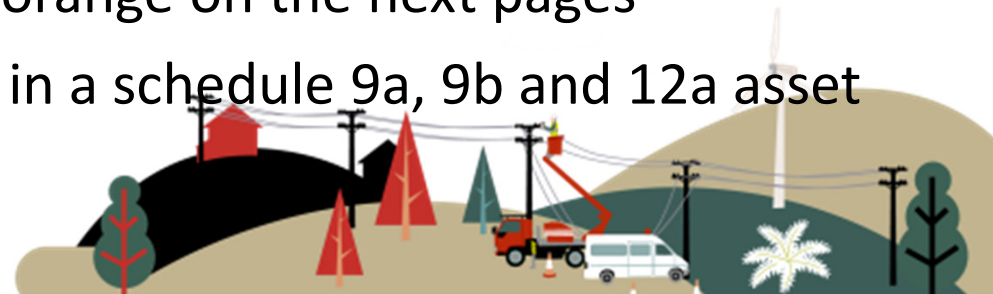
## 2.1 Asset Schedules—asset classes (cont)

- We have received a number of questions from distributors
  - which categories should be used for specific assets
  - the supplier's ability to maintain and develop management systems
  - suppliers' asset registers will contain more detail than the disclosed information
- The asset classes have been developed in association with industry participants
- Over time a simple mapping can be used to compile the disclosure classes
- We recognise that with the categorisation, there will be uncertainty around the edges



## 2.1 Asset Schedules—asset classes (cont)

- Primary assets:
  - primary assets that make up the supplier's network should be allocated to an appropriate asset class
  - if a primary asset does not clearly fit in a schedule 9a, 9b and 12a asset class, then it should be allocated to the asset class that it best fits
  - two and three phase units should be treated as a single asset
- Secondary assets:
  - for some secondary assets (including non-network assets but not including zone substation buildings and distribution substations), there may not be an appropriate schedule 9a, 9b and 12a asset class. These incomplete asset classes are shaded in orange on the next pages
  - if a secondary asset does not clearly fit in a schedule 9a, 9b and 12a asset class, then it should not be entered in the schedule



# 2.2 EDB network asset classes

## Primary Assets:

Voltage	Asset category	Asset class	Units
HV	Subtransmission Line	Subtransmission OH up to 66kV conductor	km
HV	Subtransmission Line	Subtransmission OH 110kV+ conductor	km
HV	Subtransmission Cable	Subtransmission UG up to 66kV (XLPE)	km
HV	Subtransmission Cable	Subtransmission UG up to 66kV (Oil pressurised)	km
HV	Subtransmission Cable	Subtransmission UG up to 66kV (Gas pressurised)	km
HV	Subtransmission Cable	Subtransmission UG up to 66kV (PILC)	km
HV	Subtransmission Cable	Subtransmission UG 110kV+ (XLPE)	km
HV	Subtransmission Cable	Subtransmission UG 110kV+ (Oil pressurised)	km
HV	Subtransmission Cable	Subtransmission UG 110kV+ (Gas Pressurised)	km
HV	Subtransmission Cable	Subtransmission UG 110kV+ (PILC)	km
HV	Subtransmission Cable	Subtransmission submarine cable	km
HV	Zone substation Buildings	Zone substations up to 66kV	No.
HV	Zone substation Buildings	Zone substations 110kV+	No.
HV	Zone substation switchgear	50/66/110kV CB (Indoor)	No.
HV	Zone substation switchgear	50/66/110kV CB (Outdoor)	No.
HV	Zone substation switchgear	33kV Switch (Ground Mounted)	No.
HV	Zone substation switchgear	33kV Switch (Pole Mounted)	No.
HV	Zone substation switchgear	33kV RMU	No.
HV	Zone substation switchgear	22/33kV CB (Indoor)	No.
HV	Zone substation switchgear	22/33kV CB (Outdoor)	No.
HV	Zone substation switchgear	3.3/6.6/11/22kV CB (ground mounted)	No.
HV	Zone substation switchgear	3.3/6.6/11/22kV CB (pole mounted)	No.
HV	Zone Substation Transformer	Zone Substation Transformers	No.
HV	Distribution Line	Distribution OH Open Wire Conductor	km
HV	Distribution Line	Distribution OH Aerial Cable Conductor	km
HV	Distribution Line	SWER conductor	km
HV	Distribution Cable	Distribution UG XLPE or PVC	km
HV	Distribution Cable	Distribution UG PILC	km
HV	Distribution Cable	Distribution Submarine Cable	km
HV	Distribution switchgear	3.3/6.6/11/22kV CB (pole mounted) - reclosers and sectionalisers	No.
HV	Distribution switchgear	3.3/6.6/11/22kV CB (Indoor)	No.
HV	Distribution switchgear	3.3/6.6/11/22kV Switches and fuses (pole mounted)	No.
HV	Distribution switchgear	3.3/6.6/11/22kV Switch (ground mounted) - except RMU	No.
HV	Distribution switchgear	3.3/6.6/11/22kV RMU	No.
HV	Distribution Transformer	Pole Mounted Transformer	No.
HV	Distribution Transformer	Ground Mounted Transformer	No.
HV	Distribution Transformer	Voltage regulators	No.
HV	Distribution Substations	Ground Mounted Substation Housing	No.

Voltage	Asset category	Asset class	Units
LV	LV Line	LV OH Conductor	km
LV	LV Cable	LV UG Cable	km
LV	LV Street lighting	LV OH/UG Streetlight circuit	km
LV	Connections	OH/UG consumer service connections	No.

Voltage	Asset category	Asset class	Units
All	Overhead Line	Concrete poles / steel structure	No.
All	Overhead Line	Wood poles	No.
All	Overhead Line	Other pole types	No.

## Secondary Assets:

Voltage	Asset category	Asset class	Units
All	Protection	Protection relays (electromechanical, solid state and numeric)	No.
All	SCADA and communications	SCADA and communications equipment operating as a single system	Lot
All	Capacitor Banks	Capacitors including controls	No.
All	Load Control	Centralised plant	Lot
All	Load Control	Relays	No.
All	Civils	Cable Tunnels	km





# 2.3 GDB network asset classes

## Primary Assets:

Operating Pressure	Asset Category	Asset Class	Units
Intermediate Pressure	Main pipe	IP PE main pipe	km
Intermediate Pressure	Main pipe	IP steel main pipe	km
Intermediate Pressure	Main pipe	IP other main pipe	km
Intermediate Pressure	Service pipe	IP PE service pipe	km
Intermediate Pressure	Service pipe	IP steel service pipe	km
Intermediate Pressure	Service pipe	IP other service pipe	km
Intermediate Pressure	Stations	Intermediate pressure DRS	No.
Intermediate Pressure	Line valve	IP line valves	No.
Intermediate Pressure	Special crossings	IP crossings	No.

Operating Pressure	Asset Category	Asset Class	Units
Medium Pressure	Main pipe	MP PE main pipe	km
Medium Pressure	Main pipe	MP steel main pipe	km
Medium Pressure	Main pipe	MP other main pipe	km
Medium Pressure	Service pipe	MP PE service pipe	km
Medium Pressure	Service pipe	MP steel service pipe	km
Medium Pressure	Service pipe	MP other service pipe	km
Medium Pressure	Stations	Medium pressure DRS	No.
Medium Pressure	Line valve	MP line valves	No.
Medium Pressure	Special crossings	MP special crossings	No.

Operating Pressure	Asset Category	Asset Class	Units
Low Pressure	Main pipe	LP PE main pipe	km
Low Pressure	Main pipe	LP steel main pipe	km
Low Pressure	Main pipe	LP other main pipe	km
Low Pressure	Service pipe	LP PE service pipe	km
Low Pressure	Service pipe	LP steel service pipe	km
Low Pressure	Service pipe	LP other service pipe	km
Low Pressure	Line valve	LP line valves	No.
Low Pressure	Special crossings	LP special crossings	No.

## Secondary Assets:

Operating Pressure	Asset Category	Asset Class	Units
All	Monitoring & control systems	Remote terminal units	No.
All	Cathodic protection systems	Cathodic protection	No.



# 2.4 GTB network asset classes

## Primary Assets:

Asset category	Asset class	Units
Pipes	Protected steel pipes	km
Pipes	Special crossings	km
Stations	Compressor stations	No.
Stations	Offtake point	No.
Stations	Scraper stations	No.
Stations	Intake points	No.
Stations	Metering stations	No.
Compressors	Compressors—turbine driven	No.
Compressors	Compressors—electric motor driven	No.
Compressors	Compressors—reciprocating engine driven	No.
Main-line valves	Main line valves manually operated	No.
Main-line valves	Main line valves remotely operated	No.
Heating systems	Gas-fired heaters	No.
Heating systems	Electric heaters	No.
Odourisation plants	Odourisation plants	No.
Coalescers	Coalescers	No.
Metering systems	Meters—ultrasonic	No.
Metering systems	Meters—rotary	No.
Metering systems	Meters turbine	No.
Metering systems	Meters—mass flow	No.

## Secondary Assets:

Asset category	Asset class	Units
SCADA and communications	Remote terminal units (RTU)	No.
SCADA and communications	Communications terminals	No.
Cathodic protection	Rectifier units	No.
Chromatographs	Chromatographs	No.



# 3.1 Asset Schedules—data accuracy

- Each of these schedules contains a column for data accuracy
- Data accuracy grades are a self assessment of the accuracy of the data in the row
  - Grade 1 – good quality data is not available for any of the assets in the category and estimates are likely to contain significant error
  - Grade 2 – good quality data is available for some assets but not for others and the data provided includes estimates of uncounted assets within the category
  - Grade 3 – data is available for all assets but includes a level of estimation where there is understood to be some poor quality data for some of the assets within the category
  - Grade 4 –good quality data is available for all of the assets in the category
  - N/A – expectation that this option in the template should not be used
- Expectation that data accuracy will improve over time





## 3.2 Schedule 9a: Asset register

- The asset register simply records that an asset exists
  - how many (much) in each class
    - at start of year
    - at end of year (start of next year)
- Items at start of year = Items at end of year (in previous disclosure)

Voltage	Asset category	Asset class	Units	Items at	Items at end	Net change	Data
				start of year	of year		accuracy 1–4
				(quantity)	(quantity)		
All	Overhead Line	Concrete poles / steel structure	No.	9,243	9,268	25	4
All	Overhead Line	Wood poles	No.	11,852	11,902	50	3
All	Overhead Line	Other pole types	No.	15	15	-	2
HV	Subtransmission Line	Subtransmission OH up to 66kV conductor	km	185	185	-	1



# 3.3 Schedule 9b: Asset age profile

- Schedules 9a and 9b — the total assets at year end should be consistent between these two schedules

Disclosure Year (year ended)			Number of assets at disclosure year end by installation date											
31 March 2013														
Voltage	Asset category	Asset class	Units	pre-	1940	1950	1960	1970			No. with Age unknown	Total assets at year end	No. with default dates	Data accuracy (1-4)
				1940	-1949	-1959	-1969	-1979	2012	2013				
All	Overhead Line	Concrete poles / steel structure	No.	-	12	170	35	450	32	45	-	2,351	-	4
All	Overhead Line	Wood poles	No.	-	250	624	1,541	1,752	384	410	-	25,854	-	4
All	Overhead Line	Other pole types	No.	-	-	-	-	-	-	-	-	-	-	4
HV	Subtransmission Line	Subtransmission OH up to 66kV conductor	km	-	-	-	1	28	8	4	-	347	-	4



# 3.4 Schedule 12a: Report on asset condition



- Condition grading is based on intervention and monitoring:
  - Grade 1—end of serviceable life, immediate intervention required
  - Grade 2—material deterioration but asset condition still within serviceable life parameters. Intervention likely to be required within three years.
  - Grade 3—normal deterioration requiring regular monitoring
  - Grade 4—good or as new condition
  - Grade unknown—condition unknown or not yet assessed

Asset condition at start of planning period (percentage of units by grade)

Voltage	Asset category	Asset class	Units	Grade 1	Grade 2	Grade 3	Grade 4	Grade unknown	Data accuracy (1-4)	% of asset forecast to be replaced in next 5 years
All	Overhead Line	Concrete poles / steel structure	No.						[Select one]	
All	Overhead Line	Wood poles	No.						[Select one]	
All	Overhead Line	Other pole types	No.						[Select one]	
HV	Subtransmission Line	Subtransmission OH up to 66kV conductor	km						[Select one]	



## 4.1 Asset class allocation concerns raised by suppliers

- Some distributors have asked whether these asset classes are likely to change. We consider the asset classes to be adequate and we do not propose to revise them.
- However, if the industry wishes to propose an agreed set of revisions, we would consider whether they enhance the value of the disclosures to interested persons.



# 4.1 Asset class allocation concerns raised by suppliers (cont)

- Number of OH/UG consumer service connections (is it identical to the number of ICPs?)
- Categorisation of assets acquired from Transpower ('subtransmission voltage' is defined to be capped at 110kV)
- Composition and age profile and of 'lots' (eg, SCADA)
- How (if at all) should items such as 11kV switching station buildings be categorised?





# Questions?



# Information Disclosure Workshop



These slides formed the basis of the ID presentations to suppliers and auditors by Commission staff in March 2014. These slides are not meant to be definitive and should not be used instead of legal advice. They do not replace or summarise the information disclosure determinations themselves. Suppliers and auditors should read the EDB, GDB and GTB determinations published on 1 October 2012. These documents can be found at:

- <http://www.comcom.govt.nz/current-electricity-information-disclosure-requirements/> for EDBs; and
- <http://www.comcom.govt.nz/gas-information-disclosure/> for GPBs.





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