

**Information Disclosure for Electricity Distribution
Businesses and Gas Pipeline Businesses:
categorising and allocating operating costs and asset values**

Information Disclosure seminar hand-out

March 2013

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1. Introduction

Purpose

The purpose of this hand-out is to explain

- how costs are categories in the information disclosure templates
- the cost allocation input methodology process and the components that form part of the process.

The hand-out summarises and complements the material presented in the information disclosure seminar session 'categorising and allocating costs' in March 2013.

The material in this hand-out is purely for explanatory purposes and does not replace the information disclosure and the input methodology determinations.

Structure of this hand-out

This hand-out

- gives an overview of what we mean by categorising and allocating costs (section 2)
- describes the two types of costs between which the cost allocation IM distinguishes (section 3)
- describes what the input methodology for cost allocation is (section 4)
- explains the process of allocating operating costs (section 5)
- describes the three complementary approaches for cost allocation (sections 6, 7 and 8)
- sets out a cost allocation worked example (section 9)
- gives an overview of how interested parties may use the information disclosures to assess how suppliers have applied the cost allocation input methodology (section 10)
- gives an overview of the categories of operating costs and asset values in Schedules 5d, 5e, 5f, 5g, 6a, 6b and 7 (section 11)
- describes the capital expenditure (capex) activity, asset value, and operational expenditure (opex) categories used in the EDBs, GDB and GTB disclosures (section 12)
- covers information to be entered in schedules 5d, 5e, 5f, 5g, 6a, 6b and 7 (sections 13 to 16)

2. Categorising and allocating costs

Businesses that are regulated under an information disclosure (ID) determination, prepared under Part 4 of the Commerce Act 1986, must publicly disclose certain information concerning the supply of goods and services to which the determination relates. Some businesses, including those supplying electricity lines and gas pipeline services, may be regulated under more than one ID determination, and may also supply unregulated services.

Costs and asset values that relate to the goods and services regulated under an ID determination will comprise:

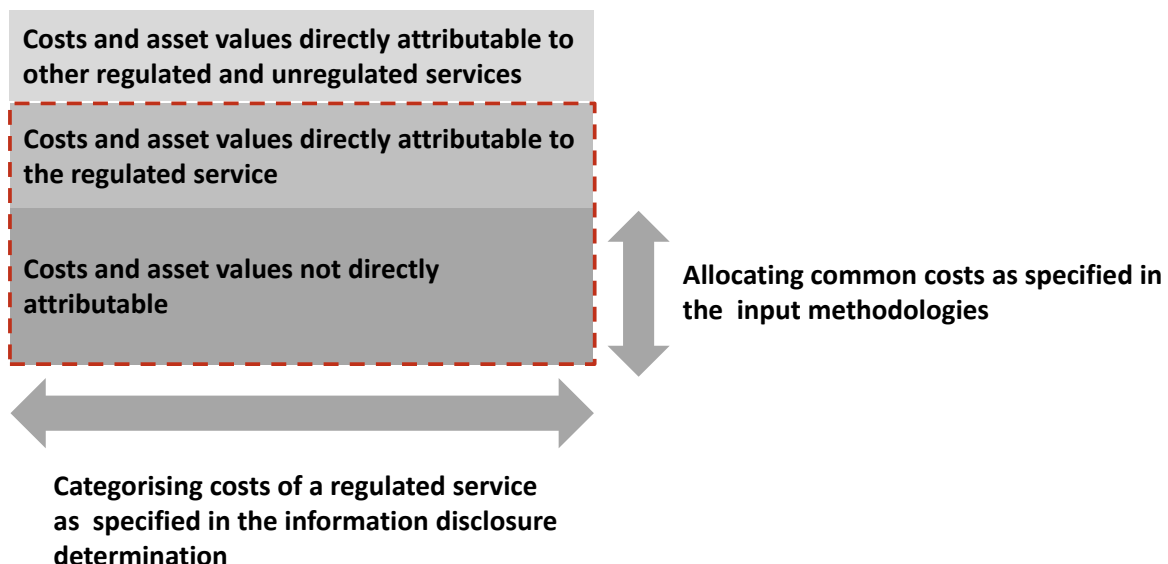
- all of the costs¹ directly attributable to the goods and services regulated under the determination; and
- an allocated portion of the costs (if any) that are not directly attributable.

It does not include any of the costs that are directly attributable to other goods and services.

To support the purpose of ID, the publicly disclosed costs and asset values of the regulated service are categorised by what may be loosely described as capital expenditure and operational expenditure 'activities', or by asset value categories.

As depicted in the diagram below, allocation occurs in two dimensions: common costs are allocated to the regulated service; and costs attributable to the regulated service are allocated to activities and asset value categories.

Figure 2.1 Categorising costs and allocating costs



¹ In this hand-out, the term 'costs and asset values' is frequently shortened to 'costs'.

The rules and processes for allocating 'not directly attributable' costs are set out in Part 2 of the Input Methodologies Determination.² These methodologies must be used when completing the ID requirements. The same rules and processes apply to the allocation of operating costs and the allocation of asset values.

The operational costs, expenditure on assets, and asset values that are 'not directly attributable' are allocated in Schedule 5d tables 5d(i) and 5d(ii), Schedule 5e table 5e(i), and schedules 5f, 5g; 6a, 6b, and 7.

² Part 2 of each (EDB, GDB, GTB and Transpower) Input Methodologies Determination contains the input methodologies for information disclosure.

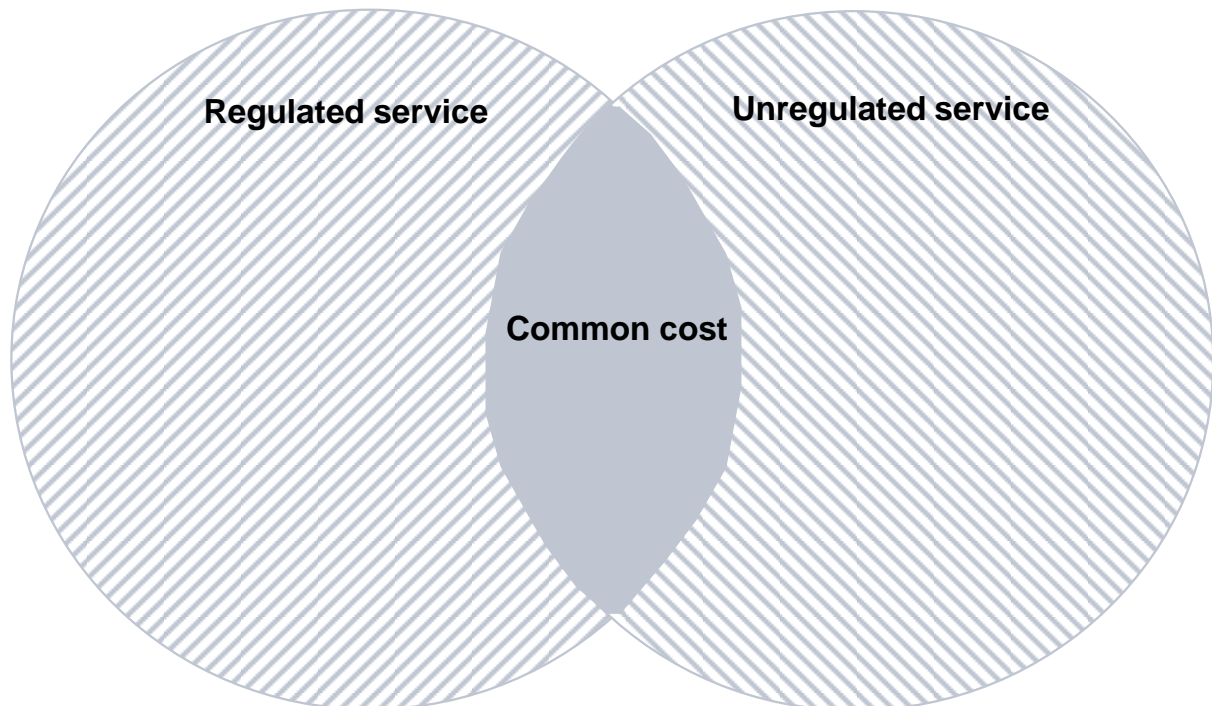
3. The cost allocation input methodology distinguishes between two types of costs

Cost allocation in regulatory accounting involves deciding:

- which costs are **directly attributable** to a single service (in the figure below, the striped areas), ie operating costs and asset values that are wholly and solely incurred in supplying a single service
- of the costs that are common to more than one service (ie costs that are **not directly attributable**) how much should be allocated to each service (in the figure below, the solid light blue area)

The input methodology covers the rules for allocating costs that are directly attributable and costs that are not directly attributable.

Figure 3.1 The cost structure of a business that provides more than one service



The common costs are often also referred to as 'economies of scope' or 'efficiencies' that arise from providing two or more services using one set of assets or operations.³

³ As explained in the IM reasons paper, 'common costs' (an economic concept) is usually not the same as 'shared cost' (an accounting concept).

4. What is the cost allocation input methodology?

The input methodology is a set of processes with defined terms and rules.

The input methodology needs to be applied by suppliers when preparing cost information for information disclosures and as part of price-quality information (ie, when preparing information for a customised price-quality path application or an information notice for default price-quality regulation).

At the highest level, the input methodology is a two-step allocation of operating costs and assets.

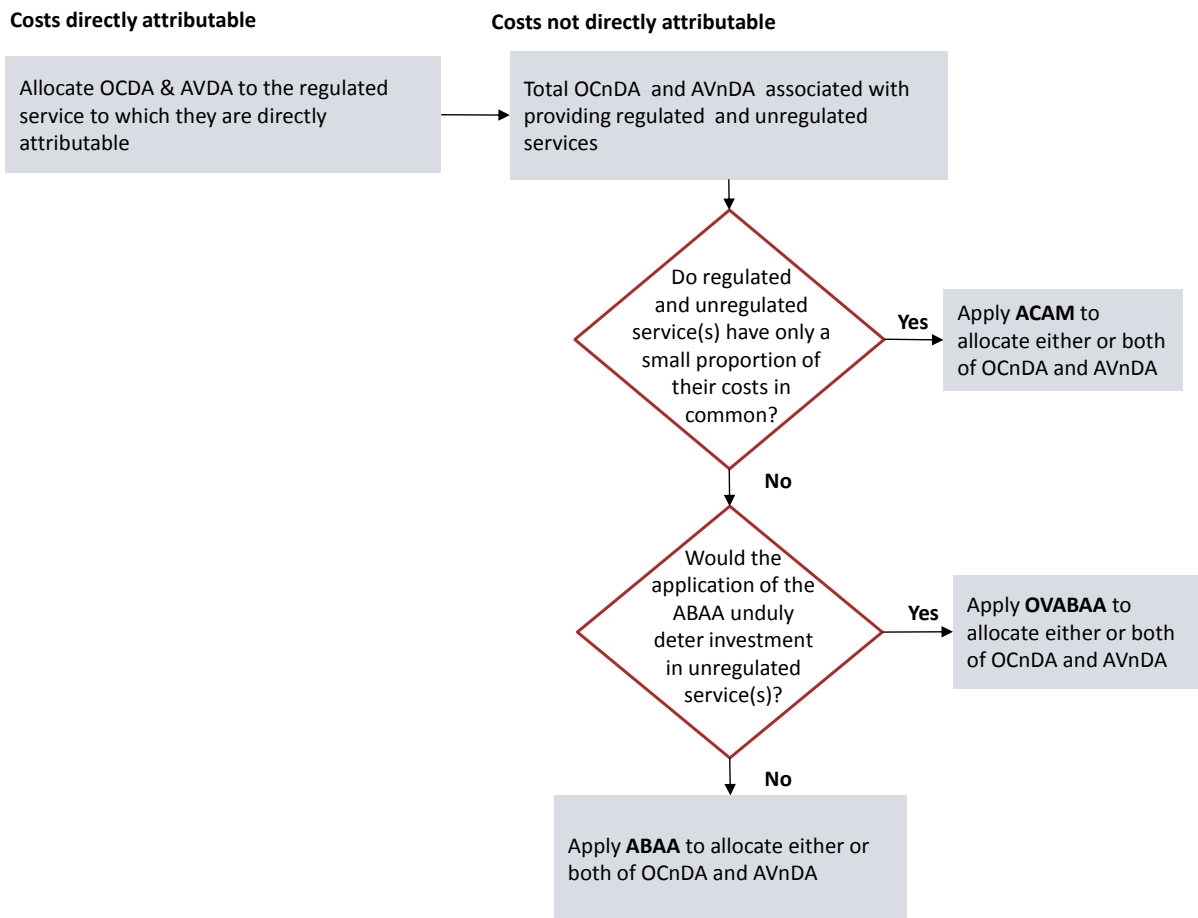
- first, the **costs directly attributable** are allocated to the services to which they are directly attributable. A cost directly attributable is a cost that is wholly and solely related to the supply of one regulated service.
- second, **costs not directly attributable** are allocated between regulated services, and between regulated and unregulated services they are associated with.

The allocation of costs not directly attributable involves three complementary approaches.

- **accounting-based allocation approach (ABAA)**. Under this approach operating costs and asset values are allocated based on causal factors, or based on proxy factors where causal-based allocators are not available.
- **optional variation to the accounting-based allocation approach (OVABAA)**. This approach is a modified version of ABAA. This approach is appropriate in those situations where the application of the ABAA might unduly deter investments in unregulated services.
- **avoidable cost allocation methodology (ACAM)**. This approach leads to an allocation where most or all costs not directly attributable are allocated to a supplier's regulated services. This approach may be used in some circumstances.

The figure below gives an overview of the cost allocation process in the input methodology, including the process for deciding between the three cost allocation approaches.

Figure 4.1 Overview of cost allocation process



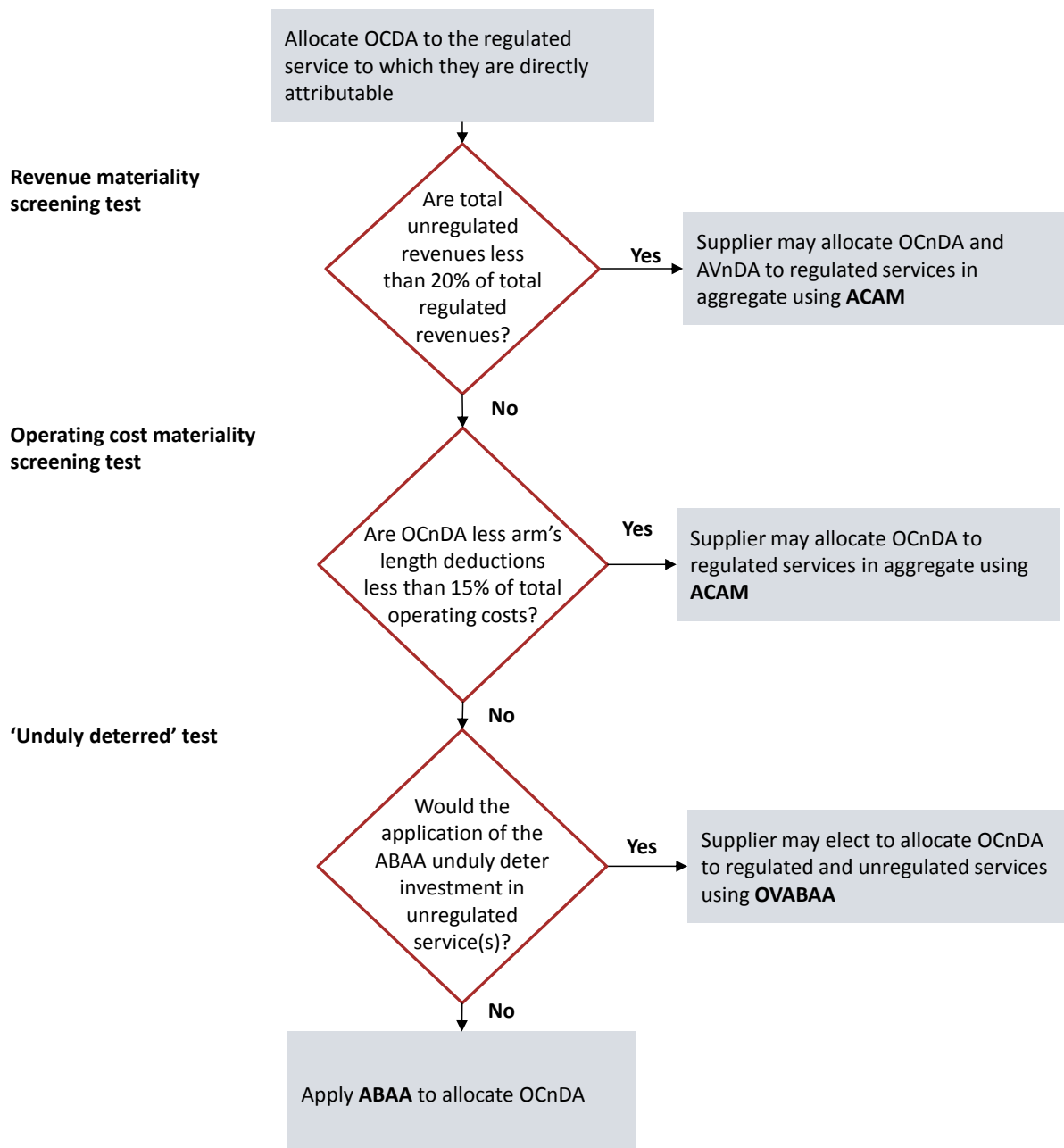
Note: OCDA means operating costs directly attributable. OCnDA means operating costs not directly attributable. AVDA means asset values not directly attributable. AVnDA means asset values not directly attributable.

5. The processes for allocating operating costs and asset values not directly attributable are similar

The figure below shows the process for allocating operating costs not directly attributable. It includes the two materiality tests and the 'unduly deterred' test.

The process for allocating asset values is similar. The processes for allocating asset values and operating costs are separate processes.

Figure 5.1 Overview of the cost allocation process for operating costs



Note: OCDA means operating costs directly attributable. OCnDA means operating costs not directly attributable. AVnDA means regulated service asset values not directly attributable. ACAM means avoidable cost allocation methodology.

The **key components** of the cost allocation process are:

- **Revenue materiality screening test.** This test determines whether or not the revenue a business receives from unregulated services in a disclosure year is less than 20% of revenues received from the supply of all regulated services.
- **Operating cost materiality screening test.** This test determines whether or not operating costs not directly attributable (less any arm's-length deductions) in a disclosure year are less than 15% of total operating costs.
- **Asset value materiality screening test.** This test determines whether or not the total value of regulated service asset values not directly attributable (less any arm's-length deduction) in a disclosure year is less than 10% of the aggregated unallocated closing regulatory asset base value for all types of regulated services.
- **Arm's length deduction.** These are operating costs or regulated service asset values not directly attributable, incurred by a supplier in the supply of unregulated services that have been recouped in an arm's-length transaction.
- **Arm's length transaction.** A transaction is arm's length if it results in outcomes that fully independent parties would have agreed upon after a negotiation process.⁴

⁴ The formal definition of arm's-length transaction in the determination is the same as that in the Electricity Industry Act 2010. An arm's-length transaction is a dealing or transaction that does not:

- (a) include terms that parties in their respective positions would usually omit; and
- (b) omit terms that parties in their respective positions would usually include, if the parties were:
 - (c) connected or related only by the dealing or transaction in question;
 - (d) acting independently; and
 - (e) each acting in its own best interests.

6. The accounting-based allocation approach is an application of activity based costing

Activity based costing allocates costs on the basis of processes that are eventually traced back to outputs. The accounting-based allocation approach is an application of activity based costing.

Activity based costing develops cost allocators based on causal relationships between processes and outputs. This introduces a level of objectivity to the allocation of costs. For some cost categories, the mapping of costs onto processes and outputs may not be possible and therefore an allocation rule based on proxy factors (ie, simple discretionary rules not based on causality) needs to be used instead.

The **key components** of the accounting-based allocation approach are:

- If possible cost and asset allocators need to be based on a current **causal relationship**. A causal relationship is:
 - in relation to asset values, a circumstance in which a factor influences the utilisation of an asset (during the 18 month period terminating on the last day of the disclosure year for which the cost allocation is carried out); and
 - in relation to operating costs, a circumstance in which a cost driver leads to an operating cost being incurred during the 18 month period terminating on the last day of the disclosure year for which the cost allocation is carried out).
- If a supplier does not use a causal allocator it must use a **proxy cost allocator**, ie a proportion of a quantifiable measure used to allocate costs for which a causal relationship cannot be established (and the amount is based on factors that existed during the 18 month period terminating on the last day of the disclosure year for which the cost allocation is carried out).
- The allocation across all regulated services resulting from applying the accounting-based allocation approach must be no higher than the allocation resulting from ACAM applied to those services in aggregate.

Suppliers have flexibility in choosing causal cost allocators. A range of different causal factors might appear equally valid, yet result in different cost allocation outcomes.⁵

⁵ For example, a supplier may identify network length and the number of installation connection points as potential allocators. There will be differences in the cost allocation between the two allocators if the customer connection density varies across different parts of the network.

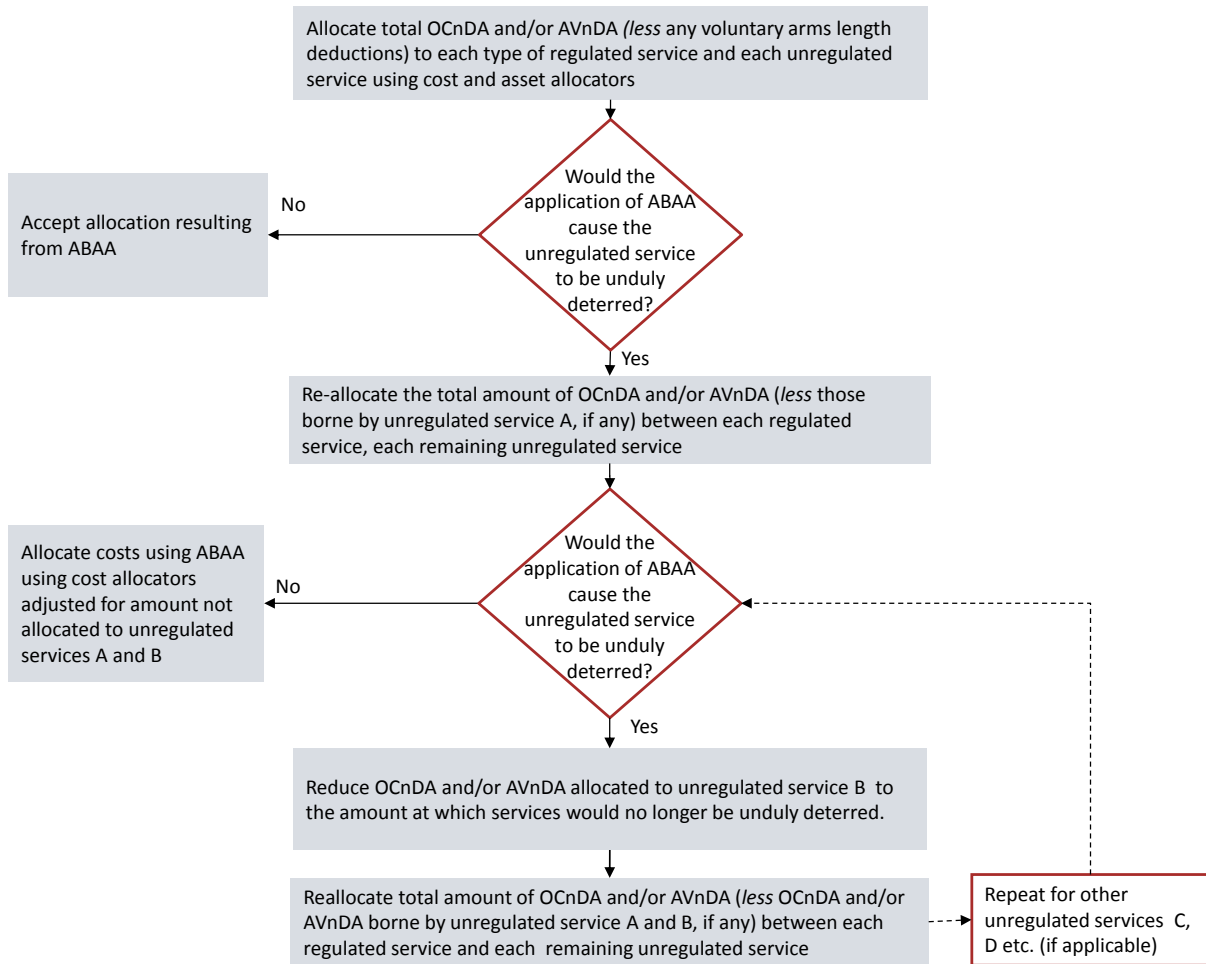
7. The optional variation to the accounting-based allocation approach

Despite its flexibility of the accounting-based allocation approach it is a mostly static approach. To mirror the more dynamic nature of how cost allocations are (implicitly) achieved in workably competitive markets the input methodology includes the optional variation to the accounting-based allocation approach.⁶ This ensures that investments in unregulated services are able to proceed if they would also proceed in similar circumstances in workably competitive markets.

The figure below gives an overview of the process for the optional variation to the accounting-based allocation approach.

⁶ For example, in the short-term existing services may recover most or all shared cost on behalf of a new service until this service is able to increase its contribution to the recovery of shared costs.

Table 7.1 The process for the optional variation to the accounting-based allocation approach



Note: OCnDA means operating costs not directly attributable. AVnDA means regulated service asset values not directly attributable. ABAA means accounting-based allocation approach.

The **key components** of the optional variation to the accounting-based allocation approach are:

- **unduly deterred** means solely as a result of allocating costs to the unregulated service, the costs not directly attributable to be borne by that unregulated service would cause that unregulated service to be discontinued or not provided.⁷
- Where the OVABAA is applied to both operating costs not directly attributable and regulated service asset values not directly attributable, the combined amount of such

⁷ 'Cost' refers here to either or both of operating costs not directly attributable and capital costs associated with regulated service asset values not directly attributable.

costs and values that is re-allocated must not exceed the amount required to ensure that the unregulated service is not unduly deterred.

- Each unregulated service must bear at least the total cost (ie, operating costs and value of assets) directly attributable to that unregulated service.

8. ACAM may be applied in some circumstances but has been modified

ACAM is an accounting approach that electricity distributors were required to under the old information requirements under Part 4, as well as previously under Part 4A. Although not mandatory, suppliers of gas pipeline services applied this approach as well.

ACAM considers which costs would be avoided if a supplier no longer supplied services other than the regulated service service.

A **key component** of ACAM is that suppliers must not double count costs recovered from two more regulated services.

There are additional constraints that apply when applying either ABAA or OVABAA:

- the operating costs that may be allocated to regulated services in aggregate must not exceed the total value of operating costs that would be allocated using ACAM; and
- the regulated service asset values that may be allocated to regulated services in aggregate must not exceed the total regulated service asset values that would be allocated using ACAM.

9. Worked cost allocation example

The table below sets out a simple worked example for operating cost allocations that may result from applying the three different cost allocation approaches.

The total amount of operating costs not directly attributable that are shared between the two services is \$20. When applying the accounting-based allocation approach, two thirds of the cost (\$13) is allocated to the regulated service and one third to the unregulated service (\$7).

The allocation to the regulated service increases as a result of applying OVABAA and ACAM.

- Under OVABAA the allocation is \$16. This allocation is based on an assessment of the allocation that would mean that the unregulated service would no longer be unduly deterred.
- Under ACAM the allocation is \$20. This allocation is based on an assessment of which costs would be avoided if the supplier no longer supplied services other than the regulated service. The assessment shows that no costs could be avoided and so all the cost are allocated to the regulated service.

Table 9.1 Worked example illustrating the allocation resulting from each of the three approaches in the cost allocation IM (\$)

	Regulated service	Unregulated service	Total
Revenue	100	50	150
Operating cost directly attributable	50	25	75
Operating cost not directly attributable			
A. using ABAA	13	7	20
B. using OVABAA	16	4	20
C. using ACAM	20	0	20
EBIDTA			
A. using ABAA	37	18	55
B. using OVABAA	34	21	55
C. using ACAM	30	25	55

Note: ABAA means accounting-based allocation approach. OVABAA means optional variation to the accounting-based allocation approach. ACAM means avoidable cost allocation methodology. EBIDTA means earnings before income, depreciation, taxes and amortization.

For illustrative purposes we also calculate in the table EBIDTA as a measure of profitability. (In this example it is calculated as revenue minus operating cost directly attributable minus operating cost not directly attributable.) For the business overall, the EBIDTA of \$55 is unchanged. As the greater proportion of operating cost not directly attributable is allocated

to the regulated service under OVABAA and ACAM, the EBIDTA of the regulated service decreases, and that of unregulated service increases.

For the purpose of this worked example we used revenue of the regulated (\$100) and unregulated service (\$50) as the cost allocator. When applying the accounting-based allocation approach this means that two thirds (\$100 divided by \$150) are allocated to the regulated service and one third (\$50 divided by \$150) to the unregulated service.

Table 9.2 Cost allocators used when applying each of the three approaches

	Regulated service	Unregulated service	Total
Cost allocators for ABAA	67%	33%	100%
Cost allocators for OVABAA	80%	20%	100%
Cost allocators for ACAM	100%	0%	100%

Further reading

For a more comprehensive worked example refer to Appendix D of the input methodologies reasons paper.⁸

The cost allocation input methodology provides flexibility in choosing cost allocators. The following publications contain examples of cost allocators for allocating common costs in a regulatory context:

- The input methodologies emerging views paper has examples of cost allocators for different types of common costs.⁹
- The determinations by the Australian Economic Regulator and the compliance documents by suppliers provide examples of cost allocators that may also be relevant in New Zealand.¹⁰

⁸ Available at www.comcom.govt.nz/assets/Pan-Industry/Input-Methodologies/Final-Reasons-Papers/EDB-GPB-Input-Methodologies-Reasons-Paper-Dec-2010.pdf

⁹ Refer to table D3 on pp. 123-124 at www.comcom.govt.nz/assets/Electricity/Input-Methodologies/comcom-electricityinputmethodologiesemergingviews23dec2009.pdf

¹⁰ Available at www.aer.gov.au/node/1298

10. How interested parties may use the information disclosures to assess how suppliers have applied the cost allocation input methodology

The ID templates will allow us to assess compliance with the input methodologies using the information provided by suppliers. It will also allow other interested parties to assess how suppliers have applied the input methodologies.

Some of the information will be public (schedules 5d and e, supplemented by commentary in Schedule 14). Some additional supporting information does not have to be publicly disclosed but must be provided to the Commission (Schedules 5f and g).

The information disclosed will help us and other interested persons to assess:

- which allocators have been used to allocated cost, and whether they are causal allocators or proxy allocators and the reasons for choosing allocators
- the amounts that result from allocations and how they change over time
- the extent to which suppliers rely on different approaches to allocating costs, and the amounts allocated with each approach.

As part of monitoring compliance, the Commission may request further information, such as directors' certification if we require further assurance that the cost allocation IM has been applied appropriately.

If we find that the cost allocating input methodology is not working as envisaged, we may review it, along with other input methodologies, when we undertake the review of IMs.

11. Overview of historic schedules containing cost category allocation

Figure 11.1 Allocation Categories—opex activity, capex activity, and asset values

Allocated values	Service description	Allocation categories	Secondary allocation categories	Table
Operating costs	<ul style="list-style-type: none"> • Directly attributable • Not directly attributable (both regulated service and other services) 	<ul style="list-style-type: none"> • Opex activity categories • Pass-through costs & recoverable costs 	—	5d(i) and 5d(ii)
			Line item (nDA only)	5f
Asset values ¹	<ul style="list-style-type: none"> • Directly attributable • Not directly attributable (regulated service only) 	Asset value categories	—	5e(i)
			Line item (nDA only)	5g
Expenditures on Assets	'directly attributable' + 'not directly attributable'	Capex activity categories (& breakout categories)	Capital expenditure subcategories	6a
Operational Expenditure	'directly attributable' + 'not directly attributable'	Opex activity categories (& breakout categories)	—	6b
<ul style="list-style-type: none"> • Expenditures on Assets • Operational Expenditure 	'directly attributable' + 'not directly attributable'	<ul style="list-style-type: none"> • Capex activity categories (& breakout categories) • Opex activity categories (& breakout categories) 	—	7

¹ Asset value categories are also applied in Schedule 4 table 4(vii) Disclosure by Asset Category.

12. Expenditure categories

Capital expenditure (capex) categories are:

- activity categories
- activity subcategories
- breakout activity categories

Operational expenditure (opex) categories are:

- activity categories
- breakout activity categories

The expenditure categories are intended to capture the key activities undertaken by suppliers of regulated services and align with business practices.

The operational expenditure and capital expenditure activity categories are based on the categories used in the CPP IMs.¹¹

The capital expenditure activity categories are subdivided into subcategories. Except for the 'System growth' and 'Asset replacement and renewal' categories, the rules for allocating costs from categories into subcategories are the same for EDBs, GDBs and GTBs. The subcategories of the 'System growth' and 'Asset replacement and renewal' categories are specified by asset type, so these differ between EDBs, GDBs and GTBs.

The breakout categories highlight expenditure on activities that are included in other expenditure categories, but are of particular interest in assessing suppliers' performance.

¹¹ CPP IMs are prescribed in the electricity distribution, gas distribution, gas distribution, and gas transmission IMs for use by non-exempt suppliers when preparing a CPP proposal. The associated definitions are set out in Schedule D of the IMs.

Capital expenditure categories

Activity categories

Figure 12.1 Capital Expenditure Activity Categories—for EDBs, GDBs and GTBs

ID Determinations ¹	2008 ID requirements for EDBs
Consumer connection	Customer connection
System growth	System growth
Asset replacement and renewal	Asset replacement and renewal
Asset relocations	Asset relocations
Quality of supply	
Legislative and regulatory	Reliability, safety and environment
Other reliability, safety and environment ²	
Non-network assets	Non-system fixed assets

¹ EDB category definitions may be slightly changed from the CPP IMs and the 2008 ID Requirements for EDBs.

² 'Quality of supply', 'Legislative and regulatory', and 'Other reliability, safety and environment' together comprise 'Reliability, safety and environment'.

'Reliability, Safety and Environment' covers expenditure on (1) network safety, (2) reliability and service standards and (3) meeting new or enhanced environmental requirements. Of these, items 1 and 3 are largely driven by regulatory change whereas item 2 is largely customer driven.

The quality of supply of the regulated service is a specific concern of Part 4 regulation and of regulated businesses, and we do not consider it difficult to split out of the old reliability, safety and environment category. We recognise that splitting 'Reliability, Safety and Environment' into 'Legislative and regulatory' and 'Quality of supply', where 'legislative and regulatory' focuses on expenditure driven by new regulation and regulation, may not capture all cases and so have added a balancing category, 'Other reliability, safety and environment'.

Subcategories

The table below sets out the detailed capital expenditure subcategories for EDBs, GDBs, and GTBs, and their relationship to the activity categories.

Table 12.1 Capital Expenditure Activity Categories—EDB subcategories

Activity	EDB subcategories
Consumer connection	Consumer type
<ul style="list-style-type: none"> • System growth • Asset replacement and renewal 	Sub transmission
	Zone substations
	Distribution and LV lines
	Distribution and LV cables
	Distribution substations and transformers
	Distribution switchgear
	Other system fixed assets
Asset relocations	Material project or programme
Quality of supply	Material project or programme
Legislative and regulatory	Material project or programme
Other reliability, safety and environment	Material project or programme
Non-network assets	Routine material project or programme
	Atypical material project or programme

Breakout categories

Breakout capital expenditure categories are gross of capital contributions, ie, they will include the value of items that have been financed by capital contributions and the consideration of payments made for assets vested in the business.

Breakout category information is to be disclosed if it is known. This information may not currently be collected, but we expect that over time the information will be disclosed by all suppliers if the category spend is material.

Table 12.2 Capital Expenditure Activity Categories—EDB breakout categories

ID Determination (disclosed if known)	CPP IMs / 2008 ID requirements for EDBs
Overhead to underground conversion	Overhead to underground conversion expenditure (EDB IDR 2008 only)
Energy efficiency and demand side management, reduction of energy losses	—
Research and development	—

EDBs have in the past identified ‘Overhead to underground conversion’ as being important to customers, price and quality of supply, and some EDBs have active conversion programmes in place.

We expect most EDBs will have information on their ‘overhead to underground conversion’ capital expenditure, as these values have been reported in previous years. However, we will not regard disclosure as non-compliant if the information in Schedule 6 clause 6(a)(ii) is not provided, where the information is not known. (See issues register item 40)

‘Energy efficiency, demand side management and reduction of energy losses’ and ‘Research and development’ will assist in promoting s 54Q energy efficiency incentives for EDBs and assessments of innovation expenditure by enabling interested persons to identify expenditure on these activities and to judge the effectiveness of the expenditure.

GDBs and GTBs are only required to disclose information for one capital expenditure breakout category: ‘research and development’.

The breakout capex categories for GDBs and GTBs do not include ‘Energy efficiency, demand side management and reduction of energy losses’ and ‘Overhead to underground conversion’.

Asset expenditure categories

Table 12.3 Asset Expenditure—asset categories

EDB ID Determination	GDB ID Determination	GTB ID Determination
Subtransmission lines	Main pipe ¹	Pipes
Subtransmission cables	Service pipe	
Zone substations	Stations	Stations
Distribution and LV lines	Special crossings	Special crossings
Distribution and LV cables		
Distribution substations and transformers		Compressors
Distribution switchgear	Line valve	Main-line valves
Other network assets	Other network assets	Other network assets
Non-network assets	Non-network assets	Non-network assets

¹ In Schedule 4 table 4(vii) Disclosure by Asset Category, main pipe is split into intermediate, medium and low pressure categories.

Operational expenditure categories

Activity categories

Table 12.4 Operational Expenditure—activity categories

EDB ID determination	GDB ID determination	GTB ID determination	2008 requirements for EDBs
Service interruptions and emergencies	Service interruptions, incidents and emergencies	Service interruptions, incidents and emergencies	Fault and emergency maintenance
Routine and corrective maintenance and inspection	Routine and corrective maintenance and inspection	Routine and corrective maintenance and inspection	Routine and preventative maintenance
Vegetation management		Land management and associated activity	
Asset replacement and renewal	Asset replacement and renewals	Asset replacement and renewals	Refurbishment and renewal maintenance
Business support	Business support	Business support	General management, administration and overheads
System operations and network support	System operations and network support	System operations	System management and operations
		Network support	
		Compressor fuel	
—	—	—	Other

‘Business support’ largely equates to the opex category ‘General Management, Administration and Overheads’ used in the 2008 requirements for EDBs, and in the CPP IMs.

‘Vegetation management’ has been split from the capex category ‘Routine and Preventative Maintenance’. The drivers of these two expenditure categories are sufficiently different to help interested persons understand some of the differences in maintenance expenditure requirements of individual businesses.

‘Routine and corrective maintenance and inspection’ and ‘Asset replacement and renewal’ replace the ‘Routine and preventative maintenance’ and ‘Refurbishment and renewal maintenance’ categories in the IM Determinations. This is to create a stronger differentiation that reflects the incremental, proactive or immediate nature of one category and the longer term, step-change nature of the other.

‘Asset replacement and renewal’ appears in the ID determinations as an activity category of both capital expenditure and operational expenditure. This recognises that some components of asset renewals may be treated as operational expenditure under GAAP. ‘Routine and preventative maintenance’ figures tended to comprise labour and associated costs while ‘Refurbishment and renewal maintenance’ consisted mainly of expenditure on assets that, consistent with GAAP, businesses had chosen to not capitalise.

The operational expenditure category ‘Other’ in the CPP IMs has not been included in the ID categories. The ‘Other’ category accounted for 1½% of total disclosed EDB ‘asset replacement or renewals’ operational expenditure in 2010/11 and has been removed to ensure that expenditures are allocated to more informative categories.

The GDB operational expenditure categories are identical to the EDB categories except that ‘Vegetation management’ is excluded as it is not a significant activity for GDBs.

The GTB operational expenditure categories are identical to the EDB categories except that vegetation management is replaced by ‘Land management and associated activity’; and ‘System operations and network support’ is split into components ‘System operations’, ‘Network support’, and ‘Compressor fuel’.

Breakout categories

The ID determinations require:

- EDBs to disclose expenditure, where known, on:
 - Energy efficiency and demand side management, reduction of energy losses
 - Direct billing (by suppliers that directly bill the majority of their consumers)
 - Research and development
 - Insurance
- GPBs to disclose expenditure on:
 - Research and development
 - Insurance

‘Direct Billing’ has been included to help EDBs that invoice end-use consumers to distinguish to interested persons the costs incurred from this activity. None of the GDBs have direct billing and the GTBs do not have significant billing costs.

Energy efficiency is a Part 4 requirement for electricity lines services.

‘Research and Development’ is included as a breakout category in all three determinations as the promotion of incentives to innovate is a Part 4 requirement for all suppliers of regulated services.

13. Schedules 5d and 5e reports on allocations

Table 13.1 Schematic of Schedule 5 clauses 5d(i), 5d(ii) and 5e(i)

				Value Allocated			
				Arm's length deduction	Regulated service	Other business	OVABAA allocation increase
Costs	Operating costs	Opex activity 1	DA ¹				
			nDA ²				
		Opex activity 2	DA				
			nDA				
		⋮ etc	DA				
			nDA				
	Pass-through costs	DA					
		nDA					
	Recoverable costs	DA					
		nDA					
Closing RAB	Asset category 1	DA					
		nDA					
	Asset category 2	DA					
		nDA					
	⋮ etc	DA					
		nDA					

¹ DA ≡ directly attributable

² nDA ≡ not directly attributable

Table 13.2 Schematic of Schedule 5 clauses 5d(iii) and 5e(ii)

Cost category	
Original allocator or line items	
New allocator or line items	
Rationale for change	

	CY-1	CY
Original allocation		
New allocation		

Note: A table must be completed for each line item for which the allocator has changed from the previous year.

For each operational expenditure category and asset category in schedules 5d and 5e, the public disclosures must include (refer clause 2.3.5, or clause 2.3.6 in the GTB determination, for more detail):¹²

- a description of each not directly attributable cost or asset;
- the allocation methodology type(s) (ACAM, ABAA or OVABAA) used to allocate it, with a percentage breakdown if more than one type is used;
- if an ABAA or OVABAA allocation methodology is used, then whether the allocators are proxy or causal allocators;
- the allocators used and the rationale for their use.

¹² Item 95 in the issues register confirms, in response to an issue raised over the GDB determination's wording of clause 2.3.5, that in all three determinations Schedule 5e should include both directly and not directly attributable asset values.

14. Schedule 5f and 5g reports supporting allocations

Table 14.1 Schematic of Schedules 5f and 5g

Allocated in aggregate using ACAM?			Costs	Yes/No							Allocator metric (%)		Value allocated		
			Assets	Yes/No							Regulated services	Other services	Arm's length deduction	Regulated services	Other services
				Line item name	Allocation methodology type	Allocator	Allocator type	Regulated services	Other services	Arm's length deduction	Regulated services	Other services	OVABAA allocation increase		
Costs	Operating Costs	Opex activity 1	nDA ¹ item 1												
			nDA item 2												
			⋮ etc												
		Opex activity 2	nDA item 1												
			nDA item 2												
			⋮ etc												
	⋮ etc	nDA item 1													
		⋮ etc													
	Pass-through costs		nDA item 1												
			⋮ etc												
	Recoverable costs		nDA item 1												
			⋮ etc												
Closing RAB	Asset category 1	nDA item 1													
		nDA item 2													
		⋮ etc													
	Asset category 2	nDA item 1													
		nDA item 2													
		⋮ etc													
⋮ etc	nDA item 1														
	⋮ etc														

¹ NDA ≡ not directly attributable line item

The completed schedules 5f and 5g are not required to be publicly disclosed, but have to be provided to the Commission.

15. Schedules 6a and 6b reports on expenditure

Table 15.1 Schematic of Schedule 6a and 6b

					\$ (000)
Costs	Capital Expenditure	Expenditure on Assets	Capex activity 1	Subcategory 1	
				Subcategory 2	
				⋮ etc	
			Capex activity 2	Subcategory 1	
				Subcategory 2	
				⋮ etc	
			⋮ etc	Subcategory 1	
				Subcategory 2	
				⋮ etc	
			Capex activity breakouts	Research and development	
				⋮ etc	
			(less) Capital contributions	Capex activity 1	
		Capex activity 2			
		⋮ etc			
	<i>(plus)</i> Cost of financing				
	<i>(plus)</i> Value of vested assets				
	Operational Expenditure	Opex activity 1			
		Opex activity 2			
		⋮ etc			
		Opex activity breakouts	Research and development		
			Insurance		
			⋮ etc		

In Schedule 6a of all three determinations, the input cell for the capital contributions category 'Asset Replacement and Renewal' is not marked. This error has been corrected in the templates. (See issues register item 13).

16. Schedule 7 comparison of forecasts to actual expenditure

Table 16.1 Schematic of Schedule 7

		Target/ Forecast ¹	Actual	
Revenue				
Line charge revenue				
Costs	Expenditure on Assets	Capex activity 1		
		Capex activity 2		
		⋮ etc		
		Capex activity breakouts	Research and development	
			⋮ etc	
	Operational Expenditure	Opex activity 1		
		Opex activity 2		
		⋮ etc		
		Opex activity breakouts	Research and development	
			Insurance	
⋮ etc				

¹ Nominal dollar target revenue and forecast costs are entered in the Target/Forecast column.

The cost forecasts for the disclosure year are sourced from the nominal dollar CY+1 forecasts disclosed in the second to last AMP (or AMP update) under Schedule 11, and transition provisions apply for the first (ie, DY 2013) Schedule 7 disclosure.

For EDBs, forecast cost information disclosed for DY 2013 is to be derived from the 2012 AMP, and comprise:

- the Capital Expenditure on Asset Management subtotal, which is disclosed in Schedule 7 as Expenditure on Network Assets); and
- the operational expenditure on asset management subtotal (disclosed in Schedule 7 as Network Opex).

For GPBs, forecast cost information disclosed for DY 2013 is to be derived from the s53ZD information provided to the Commission, and comprise:

- expenditure on network assets (row 20 in the determination schedule);

- operational expenditure (row 31 for GDBs and row 34 for GTBs).

The Schedule 7 forecasts must be expressed in nominal dollars. Forecasts should be converted using cost inflators the supplier considers to be appropriate. A description of the inflator(s) and the reasons for selecting it should be disclosed in Schedule 14. Suppliers may choose, for example, to use the Statistics New Zealand Capital Goods Price Index (All Groups CEPQ S2GG) quarterly figures and the Producer Price Inputs Index (All Industries PPIQ SQN900000) quarterly figures to convert the capital expenditure forecasts operational and the expenditure forecasts respectively.

The target revenue for the disclosure year is sourced from the target revenues disclosed in the relevant pricing methodology disclosure(s). Where disclosure years differ from pricing years (as it may do for GPBs):

- the target revenue disclosed in the Schedule 7 report should be consistent with the target revenues for each pricing year; and
- discrepancies between the preparation dates of the target revenue and expenditure forecasts should be noted in the Schedule 14 report.

