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Information Disclosure for Electricity Distribution Businesses and Gas Pipeline Businesses: Final Reasons Paper

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Executive Summary

We have determined information disclosure requirements for suppliers of electricity distribution lines and gas pipelines under Part 4 of the Commerce Act

X1 This paper provides the reasons for our decisions on information disclosure (ID) requirements for electricity distribution businesses (EDBs), gas distribution businesses (GDBs), and gas transmission businesses (GTBs), under Part 4 of the Commerce Act 1986 (the Act).

X2 These ID requirements have been set following a comprehensive consultation process with suppliers and other interested parties over the last 18 months. We thank all those who participated in the process, in particular those industry representatives that participated in our Technical Reference Group.

X3 The requirements replace existing ID requirements under the Act for EDBs, and under the Gas (Information Disclosure) Regulations (1997) for gas pipeline businesses (GPBs).

X4 The first disclosures under the new requirements will be made for the 12 months ending in 2013, except for Maui Development Limited which has a financial year ending 31 December 2012. Different types of information will be disclosed at different times of the year, according to the nature of the information. The timings also differ for EDBs and GPBs. Chapter 8 of this paper sets out the timetable for disclosures in detail.

The information to be disclosed will enable interested persons to assess whether the purpose of Part 4 is being met

X5 The Act specifies that the Commission must determine ID requirements to ensure that sufficient information is readily available to interested persons to assess whether the purpose of Part 4 is being met.

X6 The purpose of Part 4 is to promote the long-term benefit of consumers in markets where there is little or no competition and little or no likelihood of a substantial increase in competition. This is to be done by promoting outcomes that are consistent with outcomes produced in competitive markets such that suppliers of regulated goods or services:

- have incentives to innovate and to invest, including in replacement, upgraded, and new assets;
- have incentives to improve efficiency and provide services at a quality that reflects consumer demands;
- share with consumers the benefits of efficiency gains in the supply of the regulated goods or services, including through lower prices; and
- are limited in their ability to extract excessive profits.

X7 ‘Interested persons’ includes a wide range of stakeholders that are affected by electricity distribution and gas pipeline services.

X8 We have provided for the minimum package of information that we consider interested persons will need to understand whether the purpose of Part 4 is being met for electricity distribution and gas pipeline services. This package includes information on:

- how the network is being managed, including forward looking information on planned investment, and information on asset management processes;
- historic and forecast operational and capital expenditure on different activities;
- quality outcomes (for example reliability of electricity distribution network, integrity of gas pipelines);
- prices and revenues, including how prices are set, what prices are, and revenues achieved; and
- historic financial performance, including profitability, asset values, and the return on investment.

X9 EDBs will also be required to disclose information about what they are doing to promote the energy efficient operation of their networks. This includes their consideration of non-network solutions such as distributed generation and demand side management, and expenditure on energy efficiency and reducing energy losses.

It is important that the disclosed information is robust, and standardised across suppliers if possible

X10 Standardised information allows interested persons to assess disclosed information in a consistent manner across suppliers and over time. We have therefore developed templates for the disclosure of quantitative information, where we consider it will be useful.

X11 It is also important that interested persons know they can rely on the information that is publicly disclosed being accurate. We therefore require some of the information to be audited and/or director certified before it is disclosed to provide that assurance.

We have been mindful of the costs of the requirements to suppliers when making these decisions

X12 Our key consideration in deciding ID requirements has been what information interested persons need in order to assess whether the Part 4 purpose is being met.

X13 In making these decisions we have been mindful of the costs of the new disclosure requirements on suppliers. In addition to carefully testing what level of detail and disaggregation is required in the different categories of information, we sought opportunities to further minimise the costs where possible.

X14 We benefited greatly from the technical input we sought from industry, including through consultation workshops and meetings of our Technical Reference Group of supplier representatives. This allowed us to better understand and take account of suppliers' existing information gathering and business practices.

X15 We have aligned the ID requirements with other parts of the Part 4 regulatory regime and the requirements of other regulatory bodies, such as the Electricity Authority, where possible.

X16 We are also providing for transition to the new requirements over time, to allow suppliers sufficient time to collect the information, and to develop their systems and processes where necessary. The start date for disclosing under the new requirements varies for different types of information.

We intend to support suppliers in preparing their new disclosures

X17 We intend to provide support to suppliers and their auditors to help them understand and comply with the new ID requirements. For example, we intend to:

- implement an issues register on our website, where we record any questions and guidance on the new requirements;
- hold workshop meetings with suppliers to assist them in implementing the ID requirements;
- hold workshop meetings with auditors before initial disclosures of historic financial information, to help them become familiar with the ID requirements;
- hold follow-up discussions with suppliers and their auditors after the first disclosures under the ID Determinations, to debrief and provide feedback.

X18 We may seek suppliers' views on what they would find most useful later this calendar year.

1. Introduction

Purpose of this paper

1.1. The Commission has determined requirements for information disclosure (ID) for electricity distribution businesses (EDBs), gas distribution businesses (GDBs), and gas transmission businesses (GTBs), under Part 4 of the Commerce Act 1986 (the Act). These requirements are set out in the:

1.1.1 Electricity Distribution Information Disclosure Determination (ID Determination for EDBs)

1.1.2 Gas Distribution Information Disclosure Determination (ID Determination for GDBs)

1.1.3 Gas Transmission Information Disclosure Determination (ID Determination for GTBs)

(collectively the ID Determinations).

1.2. These requirements supersede existing information disclosure requirements for EDBs and gas pipelines businesses (GPBs).[1]

1.3. The purpose of this paper is to explain the reasons the ID Determinations will ensure that sufficient information is readily available to interested persons to assess whether the Part 4 purpose is being met, as required by s 53A of the Commerce Act 1986.

How we have structured this paper

1.4. We have structured the main body of this paper in a way that allows us to first explain how we have decided what type of information should be required to be disclosed, and then explain what information we are requiring to be disclosed. Our decisions on what should be disclosed were made in light of the purpose of information disclosure. This is explained in chapter 2. The information that we are requiring to be disclosed is explained in five main categories:

1.4.1 Financial performance, including profitability and the value of the Regulatory Asset Base (chapter 3)

1.4.2 Pricing and related information (chapter 4)

1.4.3 Information on network management, including information on expenditure and quality (chapter 5)[2]

[1] EDBs are currently subject to the Commission's Electricity Distribution (Information Disclosure) Requirements 2008, under the (repealed) Part 4A of the Act. GPBs are subject to ID under the Gas Information Disclosure Regulations (GIDRs), administered by the Ministry of Business, Innovation and Employment.

1.4.4 Peak flows and pipeline capacity for GPBs (chapter 6)

1.4.5 Disclosure by sub-network and gas transmission system (chapter 7).

1.5. We have also set requirements for when and how information must be publicly disclosed (chapter 8). This includes when the first disclosures under these new requirements should be made, and any transitional provisions that are necessary to begin with.

1.6. It is also important that the information disclosed is accurate. Chapter 9 therefore explains our requirements for information to be audited and certified.

1.7. In attachments to the paper we provide additional detail on some matters, eg how we have ensured these disclosure requirements are cost-effective, how the return on investment is calculated, and our decisions on expenditure categories. We also include some supporting information, eg a list of relevant statutory provisions.

Process for developing ID requirements

1.8. Initially, work on the ID requirements took place alongside the development of input methodologies (IMs) relevant to electricity lines and gas pipelines services. The IMs underpin the disclosure requirements, which means that the disclosure requirements must be consistent with the IMs. We therefore deferred the review of ID requirements until the relevant IMs were determined in December 2010. Work on the ID requirements restarted in February 2011.

1.9. As the current EDB requirements are more developed and more closely aligned with the ID regime under Part 4 than the current GPB requirements, we used the 2008 EDB requirements as a starting point for developing the draft ID Determinations for both EDBs and GPBs. In considering what changes are needed in light of the new Part 4 provisions, we:

1.9.1 identified the matters that were not fully resolved in the 2008 review of the EDB ID requirements and were 'held over' until the ID requirements are set under Part 4[3]

1.9.2 considered what changes to the existing requirements are needed in light of the new Part 4 provisions

1.9.3 identified what aspects of the requirements are sector-specific, ie should be different for GDBs and GTBs (and tailored the draft ID requirements for GDBs and GTBs in light of those differences)

1.9.4 spoke to a range of interested persons to better understand the disclosed information they use to assess the provision of services regulated under Part

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2 Network management information is a package of information which includes information on network operation, investment, innovation and quality.

3 The key areas held over for later review included consolidation statements, related party transactions, allocation of common costs, distributed generation, transmission bypass and pass-through costs.

4, and to identify gaps in the available information relevant to the purpose of ID regulation.[4]

1.10. We released our draft ID Determinations and accompanying Draft Reasons Paper in January 2012.[5]

1.11. We have consulted widely in developing the ID Determinations. As well as speaking to interested persons, we:

1.11.1 convened working sessions for EDBs and GPBs to discuss proposed ID requirements, in May and June 2011;

1.11.2 held a briefing for interested persons on our emerging views on ID, in October 2011;

1.11.3 convened a Technical Reference Group, to provide technical input on proposed ID requirements.[6] The purpose of the Technical Reference Group was to help us develop requirements that are workable for suppliers and aligned with existing business practice where possible.

Submissions on our process

Relevance of the Commission's approach to summary and analysis in determining ID requirements

1.12. Under s 53B(2)(b), we have a statutory obligation to publish a summary and analysis of disclosed information for the purpose of promoting greater understanding of the performance of individual regulated suppliers, their relative performance, and the changes in performance over time.

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[4] We have consulted a wide range of organisations including Gen-tailers (e.g. Genesis Energy, Contact Energy, Meridian), consumers and their representatives (e.g. Federated Farmers, Domestic Energy Users Network, NZ Defence Force, Fonterra), consultancies (e.g. Smartpower, Group Energy Purchase, Simply Energy), and regulators and government departments (GIC, EA, MED). We received a strong message that many interested persons do not have sufficient resources to conduct full analysis themselves or do not consider it to be their role. They see it as the Commission's role to analyse disclosed information, and to highlight issues and findings to a wider audience. This and other key messages from this engagement were summarised in: Commerce Commission, *Information Disclosure Emerging Views Briefing Presentation*, 7 October 2011, pp.8-10.

[5] Draft Commerce Act (Electricity Distribution Services Information Disclosure) Determination 2012; Draft Commerce Act (Gas Distribution Services Information Disclosure) Determination 2012; Draft Commerce Act (Gas Transmission Services Information Disclosure) Determination 2012; Commerce Commission, *Information Disclosure Requirements for Electricity Distribution Businesses and Gas Pipeline Services Businesses Draft Reasons Paper*, 16 January 2012.

[6] The Technical Reference Group comprised industry representatives from a range of small and large suppliers of gas distribution, gas transmission and electricity distribution services, who provided technical input to the ID Determinations. Attachment D provides further detail on the purpose and membership of this group.

1.13. Some submitters suggested that we should determine and consult on our approach to undertaking summary and analysis, and then set ID requirements based on this approach.[7]

1.14. We consider that this proposed approach would not be consistent with the purpose of ID. Section 53A requires us to determine ID requirements taking account of the needs of interested persons. While we consider the Commission's summary and analysis will cover aspects of key interest to most interested parties , we must also consider what information interested persons may need to assess for themselves aspects of performance that may be of specific relevance to them under s 52A(1). The Commission must therefore ensure that interested parties have access to the information to undertake their own analysis. This view was supported by comments from several submitters.[8]

Proposal to specify new ID requirements in two stages

1.15. In submissions on the Draft ID Determinations the ENA (and others) suggested that we break the specification of new ID requirements into two stages.[9] ENA considered that we should:

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7 For example: Unison, *Submission on Information Disclosure Requirements for Electricity Distribution Businesses and Gas Pipeline Businesses – Draft Reasons Paper*, 9 March 2012, paragraph 8; ENA, *Submission on Information Disclosure Requirements for Electricity Distribution Businesses: Draft Determination and Draft Reasons Paper*, 9 March 2012, paragraphs 13 and 91; Aurora Energy, *Submission to the Commerce Commission on its Draft Commerce Act (Electricity Distribution Services Information Disclosure) Determination 2012 and Companion Draft Reasons Paper - Information Disclosure Requirements for Electricity Distribution Businesses and Gas Pipeline Businesses*, 9 March 2012, paragraphs 9–12; Wellington Electricity Lines, *Information Disclosure Requirements (IDR) - Draft Reasons Paper*, 9 March 2012, page 3.

8 For example, ENA submitted that our summary and analysis role "should not elevate the Commission's planned analysis above the needs of other interested parties" (ENA, *Submission on Information Disclosure Requirements for Electricity Distribution Businesses: Draft Determination and Draft Reasons Paper*, 9 March 2012, paragraph 69); Aurora Energy submitted that "the regulatory framework does not allow the Commission to accord itself pre-eminence among interested persons and effectively become *the* interested person" (Aurora Energy, *Submission to the Commerce Commission on its Draft Commerce Act (Electricity Distribution Services Information Disclosure) Determination 2012 and Companion Draft Reasons Paper - Information Disclosure Requirements for Electricity Distribution Businesses and Gas Pipeline Businesses*, 9 March 2012, paragraph 16). Similarly, PWC stated "we caution against the development of IDRs which are designed primarily to meet the Commission's expectations regarding its summary and analysis obligations." (PWC, *Submission to the Commerce Commission on Draft Commerce Act (Electricity Distribution Services Information Disclosure) Determination 2012 made on behalf of 22 Electricity Distribution Businesses*, 9 March 2012, paragraph 54). Horizon Energy suggested ID requirements should balance the needs of the Commission and other interested persons (Horizon Energy, Submission to the Commerce Commission on the Draft Information Disclosure Determination and Draft Reasons Paper for Electricity Distribution Businesses, 9 March 2012, paragraphs 26–27).

9 ENA, *Submission on Information Disclosure Requirements for Electricity Distribution Businesses: Draft Determination and Draft Reasons Paper*, 9 March 2012, paragraph 13. Submissions supporting this proposal include: Powerco, *Submission to the Commerce Commission on the Draft Information Disclosure Determination and Draft Reasons Paper for Electricity Distribution Businesses*, 9 March 2012, paragraphs 30–33; Unison, *Submission on Information Disclosure Requirements for Electricity Distribution Businesses and Gas Pipeline Businesses – Draft Reasons Paper*, 9 March 2012, paragraph 6.

1.15.1 continue with the consultation process on the specification of historical financial information and tariff and contract disclosures;

1.15.2 suspend development of data requirements to inform assessments of efficiency (such as disaggregated expenditure, asset and fault data), "pending a consultation/engagement process on the measures and indicators that would be required to meet the statutory objective and the consequential data requirements that would be needed to calculate them".

1.16. We consider that it would not be consistent with the purpose of ID to specify ID requirements that enable only a partial assessment of performance.

1.17. The purpose of ID requires information to inform, among others, assessments of efficiency. Accordingly, we would not be meeting the purpose of ID were we to suspend implementation of information disclosure on how regulated suppliers are managing their assets (information on network management), such as information on disaggregated expenditure, the state of the assets, and reliability.

2. Information required to meet the purpose of information disclosure

2.1. The purpose of this chapter is to explain how we have decided what information should be required to be disclosed. We do this by first explaining the purpose and role of information disclosure in promoting the long-term benefit of consumers, which is the overall purpose of Part 4. We then explain the key performance questions interested persons need to answer to understand whether the overall purpose is being met, and the information we consider they need to answer these questions.

Purpose and role of information disclosure

2.2. This section discusses:

2.2.1 the purpose of information disclosure (ID)

2.2.2 our interpretation of key terms in s 53A: ‘interested persons’, ‘sufficient information’, and ‘readily available’,

2.2.3 the role of ID in promoting the Part 4 purpose.

The purpose of information disclosure under Part 4

2.3. Electricity lines services and gas pipeline services are subject to information disclosure (ID) regulation under s 54F (electricity) and s 55C (gas) of Part 4.

2.4. The purpose of information disclosure, under s 53A of the Act, is to ensure that sufficient information is readily available to interested persons to assess whether the Part 4 purpose is being met.[10]

2.5. The purpose of Part 4 is to promote the long-term benefit of consumers in markets where there is little or no competition and little or no likelihood of a substantial increase in competition. This is to be done by promoting outcomes that are consistent with outcomes produced in competitive markets, such that suppliers of regulated goods or services:

(a) have incentives to innovate and to invest, including in replacement, upgraded, and new assets; and

(b) have incentives to improve efficiency and provide services at a quality that reflects consumer demands; and

(c) share with consumers the benefits of efficiency gains in the supply of the regulated goods or services, including through lower prices; and

(d) are limited in their ability to extract excessive profits.

[10] Commerce Act 1986, s 52A(1).

2.6. To understand whether the relevant outcomes consistent with workably competitive markets are occurring, interested persons should have sufficient information to assess the actual performance of suppliers.

2.7. The Part 4 purpose highlights the importance of incentives: incentives to innovate and to invest (s 52A(1)(a)), and incentives to improve efficiency and provide services at a quality that reflects consumer demands (s 52A(1)(b)).

2.8. We consider that the practical test of whether incentives are working is whether suppliers are responding to those incentives. We therefore believe that interested persons can only assess whether these elements of the Part 4 purpose are being met by examining evidence of their performance—both historical performance and expected future performance.

2.9. In paragraphs 2.27 to 2.61 we therefore discuss:

2.9.1 the questions we consider interested persons need to ask to assess whether the Part 4 purpose is being met; and

2.9.2 the information we consider they need to answer these questions.

2.10. Before we do so, it is helpful to outline our interpretation of the key terms in the purpose of information disclosure. Below, we discuss how information disclosure can promote the Part 4 purpose. We then discuss who 'interested persons' are, and what we mean by 'sufficient' and 'readily available'.

How information disclosure promotes the Part 4 purpose

2.11. Given the Part 4 purpose, the supply of regulated services is likely to be, and is intended to be, influenced by the relevant type of regulation.[11]

2.12. Information disclosure improves transparency of suppliers' performance. The disclosure of information about performance can also encourage suppliers to improve their performance by allowing interested persons to highlight areas of weak and strong performance.[12]

2.13. An effective information disclosure regime provides transparency to interested persons of the performance of regulated suppliers. This will then provide an ongoing source of information so that trends can be identified and monitored over time, which will allow interested persons to assess whether the Part 4 purpose is being met.

[11] For exempt EDBs, information disclosure is the only form of regulation they are subject to under Part 4.

[12] This contrasts with the situation in workably competitive markets, where consumers and other interested persons require relatively little information—for example price and quality—to assess firms' performance. In a workably competitive market one can rely on competition to deliver outcomes such as those sought under Part 4. However, in markets for the provision of electricity distribution and gas pipelines services this is not the case. Here, consumers and other interested persons cannot assume that (a) to (d) are being achieved, and so they need information to be able judge performance for themselves.

2.14. In addition, the publication of summaries and analysis under s 53B(2)(b) can encourage EDBs and GPBs to improve performance by highlighting to interested persons (including suppliers) performance levels, relative performance, and trends in performance over time.

Interpretation of key terms in s 53A

Interested persons

2.15. We interpret 'interested persons' broadly to include (among others) persons who are affected by the way in which regulated services are provided, whether they take an active interest in the performance of suppliers or not. Accordingly, we consider interested persons to include:

2.15.1 regulated suppliers

2.15.2 consumers and consumer groups

2.15.3 electricity and gas retailers, electricity generators, and their representative groups

2.15.4 central government and regional authorities

2.15.5 other regulatory agencies, such as the Electricity Authority (EA) and the Gas Industry Company (GIC)

2.15.6 any other stakeholder of the regulated supplier, including investors and their advisors (such as equity analysts and other professional advisors), and owners of regulated suppliers

2.15.7 the Commission.

2.16. Interested persons are a diverse group. Their particular information needs will vary depending on their particular areas of interest and available resources. Some interested persons will wish to undertake their own customised analysis of disclosed information, while others may lack the resources or specialist knowledge for this, and so will prefer information to be summarised and analysed for them (eg, through our summary and analysis).

'Sufficient' information

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

2.18. For example, to understand whether suppliers have incentives to invest, information about asset condition and capital expenditure is required. Qualitative explanations assist interested persons in interpreting quantitative information. Suppliers must provide qualitative information in explanatory notes to annual disclosures, and through the narrative provided in asset management plans (AMPs).

2.19. ID is a specific form of regulation under Part 4, with its own clearly defined purpose in s 53A, independent of other regulatory instruments. As a result we consider that the requirement for 'sufficient' information to make informed assessments against the Part 4 purpose should be independent of whether suppliers are subject to price-quality regulation. Accordingly the ID requirements for EDBs that are exempt from price-quality regulation are essentially the same as for non-exempt suppliers.[13]

2.20. In deciding on what is sufficient information, we have been mindful of the cost of disclosure requirements on suppliers. In order to keep those costs to a minimum, we have:

2.20.1 taken account of suppliers' existing practices and capability;

2.20.2 required disaggregated information only where necessary;

2.20.3 aligned ID with other parts of the Part 4 regime;

2.20.4 sought technical input from the electricity and gas sectors, including through industry workshops and a Technical Reference Group made up of industry representatives.

2.21. Some submissions suggested that we should undertake a full cost benefit analysis of the ID requirements.[14] We do not consider that this is necessary or appropriate. The Act requires us to determine ID requirements to ensure that sufficient information is readily available to interested persons to assess whether the Part 4 purpose is being met. Our requirement is the establishment of an ID regime that does this.

2.22. Attachment A provides more detail on our approach to ensuring the ID requirements are cost-effective.

'Readily available'

2.23. The form in which information is disclosed affects interested persons' ability to use that information to assess performance. Consistent disclosure of data (i.e. disclosure

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13 Some submitters on our Draft ID Determinations considered that exempt and non-exempt EDBs should be treated differently under ID. For example PWC, *Submission to the Commerce Commission on Draft Commerce Act (Electricity Distribution Services Information Disclosure) Determination 2012 made on behalf of 22 Electricity Distribution Businesses*, 9 March 2012, paragraphs 50–51; Marlborough Lines, *Submission to the Commerce Commission on the Draft Information Disclosure Determination and Draft Reasons Paper for Electricity Distribution Businesses*, 9 March 2012, page 1. Our view above is consistent with our view as expressed in the Draft Reasons Paper, and in our Discussion Paper of July 2009.

14 For example Horizon Energy, *Submission to the Commerce Commission on the Draft Information Disclosure Determination and Draft Reasons Paper for Electricity Distribution Businesses*, 9 March 2012 paragraph 2; Wellington Electricity Lines, *Information Disclosure Requirements (IDR) - Draft Reasons Paper*, 9 March 2012, page 5, paragraph 4.2; Aurora Energy, *Submission to the Commerce Commission on its Draft Commerce Act (Electricity Distribution Services Information Disclosure) Determination 2012 and Companion Draft Reasons Paper - Information Disclosure Requirements for Electricity Distribution Businesses and Gas Pipeline Businesses*, 9 March 2012, paragraphs 1718.

of data in a standardised form that can be compared over time and across suppliers) helps interested persons to assess performance of regulated suppliers, including whether they are managing their assets for the long-term benefit of consumers. The ID Determinations, therefore, require suppliers to provide quantitative information in a standardised format.

2.24. We have developed standardised Microsoft Excel templates for the disclosure of this information. Some submitters have suggested that in order to meet the purpose of ID, disclosed information should be in a form that does not require substantial analysis in order to assess performance.[15] Our final ID Determinations provide for information in a summary form as well as information to enable interested persons to undertake their own analysis. In particular, we have included a schedule of analytical ratios, to be disclosed annually, to give interested persons a broad indication of performance.[16] However, we do not consider that analytical ratios are sufficient to assess the performance of suppliers.

ID and incentives for energy efficiency and demand side management, and reduced energy losses (s 54Q)

2.25. In determining ID requirements for EDBs, s 54Q of the Act requires us to promote incentives, and avoid imposing disincentives, for EDBs to invest in energy efficiency and demand side management, and to reduce energy losses.

2.26. ID will help to improve understanding of EDBs' performance in these areas. We have considered the ID Determination for EDBs in light of s 54Q. By providing increased transparency about EDBs' expenditure on energy efficiency, demand side management, and the reduction of energy losses, we consider the ID Determination for EDBs will improve incentives for EDBs in these areas. We do not consider that the ID Determination for EDBs reduces incentives, as it is limited to requiring suppliers to disclose information about their businesses.

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

2.27. Our key consideration in determining ID requirements must be the information interested persons need in order to assess whether the Part 4 purpose is being met.

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15 For example ENA, *Submission on Information Disclosure Requirements for Electricity Distribution Businesses: Draft Determination and Draft Reasons Paper*, 9 March 2012, paragraphs 12, 67. Aurora also submitted that ID must meet the needs of all interested persons equally, and not afford priority to one subset of interested persons over another (Aurora Energy, *Submission to the Commerce Commission on its Draft Commerce Act (Electricity Distribution Services Information Disclosure) Determination 2012 and Companion Draft Reasons Paper - Information Disclosure Requirements for Electricity Distribution Businesses and Gas Pipeline Businesses*, 9 March 2012, paragraphs 13–16. Horizon Energy suggested that identifying the Commission as a key interested person has imposed a bias to the level of disaggregation in the ID requirements, and recommended a more practical balance between requirements for the Commission, and other interested persons (Horizon Energy, *Submission to the Commerce Commission on the Draft Information Disclosure Determination and Draft Reasons Paper for Electricity Distribution Businesses*, 9 March 2012, paragraphs 26–27).

16 Schedule 1 of the ID Determinations "Analytical Ratios", sets out a number of high level ratios. These must be interpreted with care, taking account of company-specific factors.

In other words, what information is needed to determine whether the performance of regulated suppliers is consistent with the performance outcomes one would expect to find in a workably competitive market.

2.28. The approach we have taken to determine the necessary information is to:

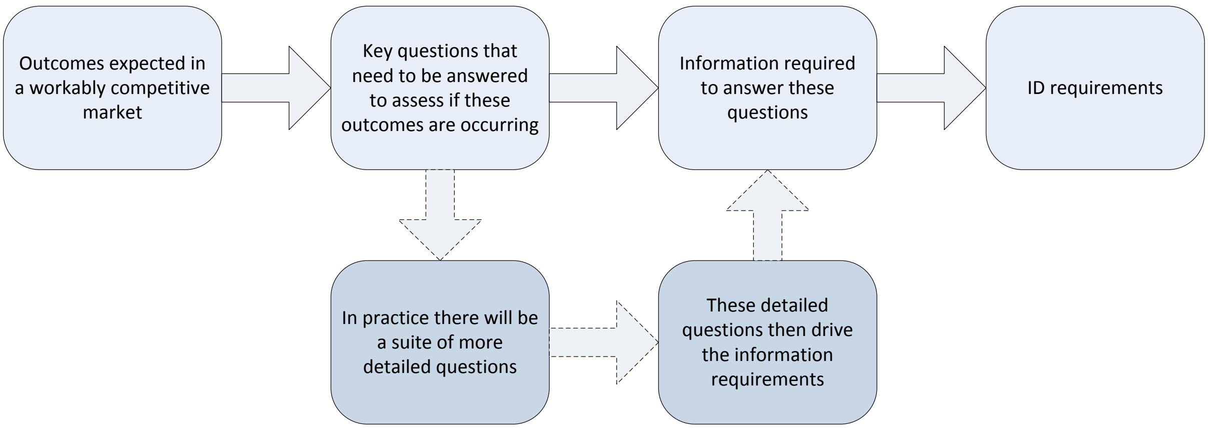
2.28.1 consider the performance outcomes one would expect to find in a workably competitive market, with reference to the Part 4 purpose

2.28.2 identify the key questions and hypotheses interested persons need to answer to assess if these outcomes are being promoted

2.28.3 determine the information interested persons would need to answer those questions.

2.29. Figure 1 illustrates this process. As the figure shows, to be able to answer each of the key performance questions, interested persons will need to consider a number of more detailed sub-questions (we discuss this further in paragraphs 2.37 to 2.45).

Figure 1: Determining the information needed to assess performance against the Part 4 purpose



Performance questions

2.30. We consider that, in order to assess whether the Part 4 purpose is being met, interested persons need to be able to answer several key questions on different aspects of supplier performance. These questions relate to historical, current and future performance. Table 1 sets out these questions and the elements of the Part 4 purpose that each question addresses.

Table 1: Key performance questions to assess if the Part 4 purpose is being met

Key performance questions	Relevance to the Part 4 purpose (s 52A(1))
1 Are suppliers operating and investing in their assets efficiently?	(a) and (b)
2 Are suppliers innovating where appropriate?	(a)
3 Are suppliers providing services at a quality that reflects consumer demands?	(b)
4 Are suppliers sharing the benefits of efficiency gains with consumers, including through lower prices?	(c)
5 Do the prices set by suppliers promote efficiency?	(a) and (b)
6 Are suppliers earning an appropriate economic return over time?	(d)

2.31. The questions in Table 1 address the key areas of performance highlighted by the Part 4 purpose in s 52A(1). The answers to these questions will enable interested persons to assess whether the Part 4 purpose is being met (as required by s 53A of the Act).

2.32. For GPBs and non-exempt EDBs, default/customised price-quality paths are also set in a way that promotes the Part 4 purpose. Over time, the answers to these performance questions (for those suppliers) will therefore help interested persons to understand whether price-quality regulation is being effective.

2.33. The questions in Table 1 overlap and are interrelated. Interested persons cannot answer some questions without knowing the answer to previous questions. For example, to assess whether a supplier is earning an appropriate economic return over time interested persons need to have formed a view on questions 1 to 5, including whether the supplier is operating and investing efficiently, and providing services at a quality that reflects consumer demands. Similarly, to assess whether suppliers are operating and investing in their assets efficiently, interested persons will need to first consider questions 2 and 3. The information required by interested persons must therefore be treated as an integrated package.

2.34. We have identified below some examples of the types of sub-questions interested persons must address in order to answer each of the questions identified in Table 1.

2.35. In paragraphs 2.46 to 2.61 below, we describe the types of information that we consider interested persons will need in order to answer the six key performance questions. We provide more detail on the link between the key performance questions, the types of sub-questions that can help to answer them, and the information suppliers will be required to disclose in chapters 3 to 6 of this paper.

2.36. We expect the specific sub-questions interested persons are interested in will evolve over time, as the sector develops and as the set of information available under the ID Determinations matures. However, we believe the information currently required under the ID Determinations will be sufficient to address the key areas of performance identified in Table 1.

Are suppliers operating and investing in their assets efficiently?

2.37. This question is central to assessing performance outcomes. We consider that to answer this, interested persons are likely to explore a number of detailed questions, including:

2.37.1 What are the reasons for the level of current expenditure?

2.37.2 How does current expenditure compare to historical trends?

2.37.3 How does current expenditure compare with expenditure by other suppliers?

2.37.4 What are the reasons and the intended outcomes for planned operational and capital expenditure?

Are suppliers innovating where appropriate?

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

2.38.1 What is current and forecast expenditure on research and development (R&D), and how does this compare to historical expenditure?

2.38.2 What R&D and innovation activities and outcomes has this expenditure funded (or will this expenditure fund)?

Are suppliers providing services at a quality that reflects consumer demands?

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

2.39.1 What is the level of quality currently being supplied to consumers?

2.39.2 How has the level of quality changed over time, and why?

2.39.3 How has the supplier sought the views of consumers on the level of quality they expect?

2.39.4 Is the supplier planning any new investment for the purpose of improving quality, and what impact is that expected to have?

2.40. We recognise that quality has a number of different dimensions. In setting ID requirements we have focussed on:[17]

2.40.1 for EDBs, the duration and frequency of interruptions, and faults;[18]

2.40.2 for GPBs, interruptions and pipeline integrity, as well as (for GDBs) responsiveness to emergency calls.

Are suppliers sharing the benefits of efficiency gains with consumers, including through lower prices?

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

2.41.1 What are current charges paid by customers, how have they changed over time and why?[19]

2.41.2 How are the prices expected to change in the future, and why?

2.42. For GPBs and non-exempt EDBs, default/customised price-quality paths should encourage suppliers to share efficiency gains with their consumers.

Do the prices set by suppliers promote efficiency?

2.43. To answer this, interested persons need a variety of information to understand, for example:

2.43.1 How do charging structures vary across different consumer groups, and why?

2.43.2 How do pricing methodologies compare against efficient pricing principles?

Are suppliers earning an appropriate economic return over time?

2.44. In assessing whether suppliers are earning an appropriate economic return over time, it is necessary to consider:

2.44.1 On one hand, is the supplier is earning a **sufficient** return?

2.44.2 On the other hand, is the supplier earning **excessive** returns?

2.45. This assessment takes account of suppliers' return on investment (ROI) over time, but must also be informed by the answers to the five questions discussed above.

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[17] We discuss information on quality further in Chapter 5 (see in particular paragraphs 5.14 to 5.17, 5.67 to 5.74).

[18] For EDBs the ID requirements use well established measures of reliability: SAIDI (system average interruption duration index) and SAIFI (system average interruption frequency index).

[19] For GPBs and non-exempt EDBs, the amount of revenue suppliers can earn is capped under default/customised price-quality regulation. However, suppliers can choose to set prices below this cap, should they wish to. Further, suppliers have discretion over the way in which they allocate revenues between consumers, and how they structure prices.

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

2.46. In order to answer the key performance questions identified above, interested persons need a package of different types of information. In particular, interested persons require information on:

2.46.1 how the network is being managed, including forward looking information on planned investment, and information on asset management processes;

2.46.2 operational and capital expenditure on different activities, both historic and forecast;

2.46.3 quality outcomes (e.g., reliability of electricity distribution network, integrity of gas pipelines);

2.46.4 prices and revenues, including how prices are set, what prices are, and revenues achieved

2.46.5 historical financial performance, in particular ROI and the key determinants of ROI.

Information on how the network is being managed

2.47. Information on the composition, age, and condition of network assets will help interested persons to understand the relationship between the current state of the network, current expenditure and levels of service, and planned expenditure.

2.48. The condition, suitability and performance of a supplier's assets and the way each supplier manages and invests in its assets are critical determinants of the price, cost and quality of services that consumers receive from regulated suppliers.

2.49. Interested persons will also need information on the key factors that can explain differences in expenditure over time and across suppliers, such as the scale of the network, whether the network is in an urban or rural location, capacity and connection growth, and the age and condition of the network. This data, in conjunction with the other data listed above, enables interested persons to assess whether suppliers are managing their assets for the long term and whether the level and timing of expenditure is efficient, such that it benefits consumers in the long term.[20]

2.50. Information that is standardised where possible will enable interested persons to more easily identify patterns and trends over time, and to compare outcomes across different suppliers.

2.51. Information on how the network is being managed will also include qualitative explanations on the suppliers' approach to asset management, for example:

[20] Commerce Commission, *Information Disclosure: Approaches for Understanding EDB and GPB Cost Efficiency - Technical Paper for Consultation*, 7 October 2011. Submissions on this paper are on the Commission's website at www.comcom.govt.nz/part-4-review-of-electricity-information-disclosure-requirements/, under the heading 'Submissions on Approach to Assessing EDB and GPB Cost Efficiency'.

2.51.1 the level of network quality and risk that suppliers are currently operating at, and planning to achieve in the future (and how this relates to expenditure)

2.51.2 whether suppliers are reviewing their asset management practices in an on-going manner, and whether this has identified areas where improvements in the management of assets are possible

2.51.3 qualitative information on business-specific factors that affect the outcomes achieved.

Historical and forecast operational and capital expenditure on different activities

2.52. The disclosure of actual and forecast expenditure will enable interested persons to compare planned and actual outcomes. By reconciling actual to forecast expenditure, interested persons can increase their understanding of whether innovation and efficiency are being realised in suppliers' investments over time. This information will also help interested persons to assess the reasonableness of suppliers' forecasts, the appropriateness of pricing and investment timing, and the extent to which projects are delivering the expected outcomes.

Information on quality outcomes

2.53. To assess whether suppliers are providing services at a quality that reflects consumer demands, interested persons also need information on the steps the supplier has taken to elicit feedback from consumers on the quality they expect.

2.54. This assessment also requires information on the aspects of quality that are important to consumers; the quality of service currently provided (e.g. supply interruption data); and the link between service levels, planned investment and therefore future quality. Information on service levels therefore needs to be sufficiently disaggregated to enable interested persons to assess patterns in interruptions and the corresponding need for investment (and to compare this to planned investment).

Information on prices and revenues

2.55. Information on prices and revenues is needed to judge whether prices set by suppliers promote efficiency, and whether suppliers are sharing efficiency gains with consumers. To answer these questions, interested persons need information on:

2.55.1 how prices are set—this includes pricing methodologies used to establish standard and non-standard prices, and information on how other components of price are calculated (where applicable)

2.55.2 actual prices, including the level of prices for different customer groups and for different price components

2.55.3 pricing outcomes, such as the level of revenue achieved and volumes billed for different customer groups and price components.[21]

Information on historical financial performance

2.56. The ROI is an important measure of profitability. In order to assess whether suppliers are earning an appropriate economic return over time, interested persons need information on key determinants of the ROI and how they change over time. The key determinants are regulatory profit and the value of the Regulatory Asset Base (RAB value), including how the RAB value is rolled forward.

2.57. Regulatory profit represents the returns earned by the regulated supplier, assessed against a regulated supplier's investments. Regulatory profit represents profits regulated under Part 4 rather than whole of entity profits.

2.58. In order to assess whether a given level of return is appropriate, it is also necessary to consider other aspects of the supplier's performance. For example is the supplier investing in and maintaining its network? Is it sharing any efficiency gains with consumers? Any assessment of a supplier's financial performance must therefore take account of the other information identified above.

It is important that information is comparable between businesses and over time

2.59. We consider that in order to meet the purpose of ID, information must be available in a form that ensures information is comparable between businesses and (to the extent possible) over time (see paragraph 2.23). For this reason the ID Determinations require suppliers to disclose standardised quantitative information, based on standardised spreadsheet templates.

2.60. The consistent disclosure of data (ie, disclosure of data in a standardised form that can be compared over time and across suppliers) assists interested persons to assess performance of regulated suppliers, including whether they are managing their assets for the long-term benefit of consumers. Network performance can be affected by a number of factors, including consumer requirements, consumer growth and the location, age, and condition of the suppliers' assets. Some of these factors are outside management control and change over time. Sufficient and consistent information is needed to assess each supplier's performance appropriately and fairly, and to assess whether the purpose of Part 4 is being met.

2.61. Under the Electricity Distribution Information Disclosure Requirements 2008 (the 2008 requirements) quantitative information on forecast expenditure, network assets, forecast demand, and so on was included in AMPs, but not in an easily comparable format. We consider the use of standardised templates will substantially

21 As already noted, for some supplier the level of revenue they may achieve is subject to a cap, under default/customised price-quality regulation. However suppliers have discretion over whether or not they price up to that cap.

improve the ability of interested persons to analyse disclosed information. Meridian supported this conclusion in its submission on our draft ID Determinations, stating:[22]

> As a major retailer, Meridian is a customer of multiple EDBs. We consider that greater standardisation of information disclosure will improve transparency, allow for easier comparisons between EDBs, and ultimately support the purpose of Part 4 of the Commerce Act.

Submissions on information interested persons need to assess performance: the role of analytical ratios

2.62. ENA submitted that we should develop ID requirements based on a set of output measures and indicators to measure performance.[23] ENA and others also submitted that the ID regime would not fulfil its statutory purpose if interested persons must undertake substantial analysis of disclosed information to assess performance.[24]

2.63. Interested persons are a diverse group (see paragraph 2.16), with different interests in the performance of suppliers. ID requirements that are based on a pre-determined set of indicators are unlikely to meet the needs of different interested persons.

2.64. Feedback and submissions from other interested persons support the disclosure of information on network assets, how they are managed, and their charges. For example, Meridian in its submission on the draft ID requirements stated that the requirements "will assist in ensuring that comprehensive, clear and comparable information is available to interested parties to assess the performance of EDBs".

2.65. Similarly, Genesis submitted on the draft ID Determinations that the proposed ID requirements went a significant way towards sourcing the type and level of information that is useful for the purposes of Part 4 of the Act. Genesis noted the importance of information which enables it to understand and monitor the performance of EDBs and GPBs, and to compare performance across different EDBs and GPBs. Genesis also stressed the importance of our summary and analysis of performance to Genesis and its consumers, alongside visible 'raw data'.[25]

2.66. We consider that analytical ratios, or 'output measures', as proposed by some suppliers, have limited analytical value, as they do not reflect business specific circumstances and cannot capture all relevant aspects of performance. For example

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22 Meridian, *Submission to the Commerce Commission on the Draft Information Disclosure Determination and Draft Reasons Paper for Electricity Distribution Businesses*, 9 March 2012, page 1.

23 ENA, *Submission on Information Disclosure Requirements for Electricity Distribution Businesses: Draft Determination and Draft Reasons Paper,* 9 March 2012 (paragraph, 78).

24 ENA, *Submission on Information Disclosure Requirements for Electricity Distribution Businesses: Draft Determination and Draft Reasons Paper*, 9 March 2012, paragraphs 12 and 13, paragraph 66-69; Pwc, *Submission to the Commerce Commission on Draft Commerce Act (Electricity Distribution Services Information Disclosure) Determination 2012 made on behalf of 22 Electricity Distribution Businesses,* 9 March 2012. (paragraphs 60-62); GasNet, *Submission on Information Disclosure Requirements for Gas Pipelines Businesses - Draft Determination,* 9 March 2012 paragraph 19; Horizon Energy, *Submission to the Commerce Commission on the Draft Information Disclosure Determination and Draft Reasons Paper for Electricity Distribution Businesses,* 9 March 2012 (paragraphs 21 and 25).

25 Genesis Energy, *Genesis Energy supports the information disclosure requirements but encourages the Commission to develop the summary and analysis aspects of the regime*, 9 March 2012, page 2.

expenditure per kilometre will differ between suppliers, and over time, depending on factors such as connection density, climate and weather events, terrain, and (for EDBs) the proportion of overhead and underground lines. It is therefore difficult to draw meaningful conclusions from such measures in the absence of additional information.

2.67. In response to submissions on this topic, we have included analytical ratios in the ID requirements, in addition to other information on how suppliers are operating and investing in their assets to provide the regulated services.[26] We consider the analytical ratios should be interpreted with care, taking account of company-specific factors and additional information available. While the analytical ratios form part of the package of disclosed information, we consider the additional company specific information is also required to enable a meaningful assessment of performance.

Overview of information required by the ID Determinations

2.68. Table 2 on page 30 summarises the types of information required by the ID Determinations. This is a package of information: interested persons need to be able to explore and assess the links between the network, expenditure, and network performance. This will enable them to assess whether outcomes are being promoted that are consistent with those produced in workably competitive markets, such that the objectives in s 52A(1)(a)-(d) are being met.

2.69. In the following chapters we provide more detail on the ID requirements in relation to:

2.69.1 historical financial information

2.69.2 pricing and related information

2.69.3 information on network management

2.69.4 information on peak flows and pipeline capacity for GTBs

2.69.5 disclosure by sub-network.

ID requirements relating to energy efficiency and demand side management, and reduction of energy losses

2.70. As discussed above (paragraphs 2.25 to 2.26), in determining the ID requirements we have considered our obligation under s 54Q to promote incentives, and avoid imposing disincentives, for EDBs to invest in energy efficiency and demand side management, and to reduce energy losses. The ID requirements will provide for transparency on:

2.70.1 strategies or processes that promote the energy efficient operation of the network, such as network design strategies, demand side management strategies and asset purchasing strategies (in the AMP requirements)

2.70.2 planned innovations that improve efficiencies within the network—such as network design or demand side management (in the AMP requirements)

2.70.3 network development options, including distributed generation and non-network solutions (in the AMP requirements). These requirements have been carried over from the existing ID requirements for EDBs

2.70.4 quantitative information including load factor, and electricity loss ratio (Schedule 9e)

2.70.5 disclosure of forecast and actual expenditure on energy efficiency, demand side management and reducing energy losses, as a separate line items (Schedules 6b, 7 and 11b).

Table 2: Overview of ID requirements

Type of information required	Determination reference	Discussed in
Historical financial performance		
Return on investment (ROI)	Section 2.3, Schedule 2	Chapter 3
Regulatory profit	Section 2.3, Schedule 3	Chapter 3
Value of the regulatory Asset Base (RAB value) rolled forward	Section 2.3, Schedule 4	Chapter 3
Supporting information on historic financial performance: • calculation of regulatory tax • information on related party transactions • limited information on the term credit spread differential (TCSD) (information on qualifying debt, and the attribution of the TCSD) • the allocation of costs and assets (EDBs and GPBs must disclose to the Commission additional supporting detail on the allocation of costs and assets) • (for the first disclosures only) the initial RAB value, and financial information relating to the transitional period from the date of the initial RAB to the commencement of ID	Section 2.3, Schedules 5a, 5b, 5c, 5d, 5e, 5f, 5g, 5h, and (for EDBs only) 5i	Chapter 3
Expenditure		
Historic expenditure, by category	Section 2.3, Schedules 6a and 6b	Chapter 5
Comparison of forecast to actual expenditure (for the disclosure year)	Section 2.3, Schedule 7	Chapter 5
Forecast expenditure, by category	Section 2.6, Schedules 11a and 11b	Chapter 5

Type of information required	Determination reference	Discussed in
Prices and revenues		
How prices are set: pricing methodologies, pricing strategies (where available) and supporting information	Section 2.4	Chapter 4
What actual prices are: • Prices, terms and conditions for standard contracts • Specified terms and conditions for non-standard contracts	Section 2.4	Chapter 4
Revenues and volumes achieved in the disclosure year (by charge type)	Section 2.4, Schedule 8	Chapter 4
Composition of the network		
Asset register, asset age profile, overhead lines and underground cables (for EDBs), pipeline data (for GPBs), information embedded networks (EDBs only), and demand	Section 2.5, Schedules 9a, 9b, 9c, 9d, and (for EDBs only) 9e	Chapter 5
Quality and reliability outcomes		
For EDBs: • Interruptions by class, SAIDI and SAIFI by class, and summary information on interruptions and faults For GPBs: • Network reliability and interruptions • Network integrity	For EDBs: Section 2.5, Attachment B, Schedule 10 For GPBs: Section 2.5, Schedules 10a and 10b	Chapter 5

Type of information required	Determination reference	Discussed in
Asset management, planned investment, and asset management processes		
Asset management plans (these include forecast expenditure; see above) Quantitative information used in asset management planning: • For EDBs: Information on asset condition, and forecasts of capacity, demand and reliability • For GDBs: Information on asset condition, and forecasts of utilisation and demand • For GTBs: Information on asset condition, and forecast demand Report on asset management maturity assessment tool (AMMAT)	Section 2.6, Attachment A Schedules 12a, 12b, 12c, and 12d (EDBs) Schedules 12a, 12b, and 12c (GDBs) Schedules 12a, and 12b (GTBs) Schedule 13 (All)	Chapter 5
Summary information on performance		
Analytical ratios	Schedule 1	Paragraphs 2.62 to 2.67
Qualitative explanations to help interested persons understand performance		
Explanatory notes: • Regulated suppliers must provide explanatory notes on a range of matters, and have the option of providing additional explanation on any matter covered in annual disclosures, in Schedule 15 Asset management plans (AMPs): • In their AMPs, regulated suppliers must provide narrative text explaining their approach to managing and operating their networks, and basis for decisions on planned investments	Section 2.7, Schedules 14, 14a, and 14b, 15 Attachment A	Chapter 5

3. Financial information for the disclosure year

Table 3: Financial information for the disclosure year: overview

Link to Part 4 purpose	In order to assess whether suppliers are earning an appropriate economic return over time, interested persons need information on the ROI, key determinants of the ROI, and how they change over time.	
Category of information	**Required disclosures**	**Reference in Determination**
Return on investment	ROI (comparable to a vanilla, and post-tax WACC) Supporting information on the calculation of the ROI, including limited information on the term credit spread differential (TCSD) (information on qualifying debt, and the attribution of the TCSD)	Clause 2.3.1, 2.3.3 and, schedule 2
Regulatory profit	Calculation of regulatory profit	Clause 2.3.1, schedule 3
Value of the Regulatory Asset Base (RAB value)	RAB value rolled forward, including information on the roll forward calculation, and asset allocation	Clause 2.3.1, schedule 4
Supporting information	Regulatory tax, treatment of related party transactions, TCSD, allocation of costs and assets.	Clause 2.3.1 EDBs/GDBs: clauses 2.3.4 to 2.3.7 GTBs: clauses 2.3.4 to 2.3.8 schedules 5a, 5b, 5c, 5d, 5e
Information to assist compliance: asset and cost allocation	Additional detail on the allocation of assets and costs, to be disclosed to the Commission only	Clause 2.3.2, schedules 5f, 5g
Transitional financial information	The initial RAB value, including information on adjustments to the initial RAB (EDBs only) an independent engineer’s	Section 2.12, schedule 5h EDBs only: Attachment C and schedule 5i

	report to support adjustments to the initial RAB Roll forward of key financial information from the date of the initial RAB to the commencement of ID.	

3.1. This chapter provides the background to and our reasoning on the historical financial information required to be disclosed.

3.2. Historical financial information is disclosed in a series of schedules about return on investment, regulatory profit, and investments in assets used for regulatory purposes (the RAB value). It includes both key indicators and supporting information. The schedules include disclosure of line items or components underlying the high level financial indicators to allow interested persons to better understand and assess financial performance.

3.3. In this chapter we discuss the following matters.

3.3.1 An explanation of why interested persons need historical financial information to assess performance

3.3.2 The relationship of historical financial information to other reporting frameworks and our IM Determination

3.3.3 Return on investment and our reasons for using a revised approach

3.3.4 Calculation of regulatory profit (and supporting schedules) including our reasons for providing additional options for disclosing related party transactions

3.3.5 Our approach to establishing the initial RAB value and updating the value for ongoing changes (annual roll-forward)

3.3.6 Our approach to information required for assessing compliance including confirmation of our decision not to require consolidated statements

3.4. Attachment E provides an explanation of the ROI calculation and our basis for setting the maximum mark-up rate which supplier can apply when valuing electrical and gas contracting services provided by related parties.

Why interested persons need historical financial information to assess performance

3.5. Historical financial information helps interested persons assess whether the Part 4 purpose is being met, and in particular whether suppliers are earning an appropriate economic return over time.[27]

3.6. As discussed in chapter 2, to assess whether suppliers are earning an appropriate return interested persons need to understand suppliers' efficiency, the quality of service provided, and whether they are passing historical efficiency gains on to consumers, as well as information on financial performance.

3.7. A supplier's ROI is a key measure of profitability. Interested persons can compare the ROI against returns that a similar business could earn in a workably competitive market to judge whether the supplier is earning an appropriate economic return.[28]

3.8. To assess the profitability of a given supplier, interested persons must have sufficient information to understand the suppliers' ROI, and changes in the ROI over time. In addition to the overall performance indicators, interested persons therefore need supporting information on key determinants of regulatory profit and the value of the RAB.

3.9. The key determinants of regulatory profit include taxation, the allocation of costs between the regulated and unregulated parts of the business, discounts, capital contributions and vested assets, gains and losses from the sale of assets, transactions with related parties, costs arising from mergers and acquisitions, the impact of any credit spread arising from long term debt, and costs that are outside the control of management.

3.10. The value of the RAB is determined by the initial RAB value and how the RAB value is rolled forward, including the calculation of depreciation, allocation of assets to the regulated part of the business, and works under construction.[29]

Relationship with GAAP and other financial reporting

3.11. Suppliers produce historical financial information for a variety of purposes, including internal management purposes and also external statutory purposes such as reporting to external stakeholders and the tax authorities.

3.12. The way in which financial information is prepared depends on its purpose. For example, internal management accounting will generally be reported in accordance

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27 See chapter 2, paragraphs 2.56 to 2.58.

28 This can be done by comparing the ROI to the weighted average cost of capital (WACC). The WACC is an estimate of the percentage return on capital that is consistent with a return a supplier achieve in a workably competitive market over time. The Commission calculates and publishes WACC estimates for suppliers of regulated services, consistent with the cost of capital input methodologies for EDBs, GDBs, and GPBs (part 2, subpart 4 of the IMs).

29 While works under construction is not included in the RAB value information works under construction enables interested persons to reconcile capital expenditure to changes in the RAB in a disclosure year. Works under construction also signals the level of future additions to the RAB value.

with the structure of management accountabilities and will generally contain a greater level of detail than is required for statutory financial reporting purposes. Accounting information prepared for external purposes is typically prepared on the general rules and principles known as 'Generally Accepted Accounting Practice' (GAAP).

3.13. GAAP is a cost-effective means of reporting financial information. It is well understood and is reflected in existing business systems and processes. Submitters generally agreed with this approach.[30]

3.14. We have developed reporting requirements which allow suppliers to use their existing reporting systems and GAAP where possible.[31] GAAP is the starting point in complying with the ID Determinations, but has been modified where necessary for regulatory purposes, including through the application of input methodologies

3.15. The purpose of regulatory reporting is distinct from other forms of external reporting. Accordingly, consideration needs to be given to the ability of GAAP reporting requirements to meet the purpose of Part 4. Where GAAP is not sufficient to meet the purpose of regulatory reporting, alternate rules are required. A key example of a purpose that is not met by GAAP is that regulatory reporting under Part 4 requires information to be disclosed based on a business activity rather than an entity basis.

3.16. Where GAAP is not sufficient to meet the purpose of information disclosure under Part 4, we developed alternate requirements. Given that the key role of the reported ROI has in assessments of profitability, interested persons must have confidence that the ROI is accurate, and is calculated based on objective and verifiable information. In some instances, for example the treatment of related party transactions, we have specified rules that depart from GAAP to provide this assurance.

3.17. In some instances information required to be disclosed through GAAP may not be necessary for the purposes of regulatory reporting.

3.18. The historical financial information required under the ID Determinations has many similarities to statutory financial reports, but differ because they are prepared for regulatory purposes. The disclosure requirements for financial information are designed to inform an assessment of whether returns are consistent with what would occur in a workably competitive market. This is achieved through applying the IMs and, for some information, by requiring suppliers to select valuation options that may differ from the values applied for statutory financial reporting or tax purposes. We consider that suppliers should reasonably be able to source most of the financial information required from existing or planned reporting systems.

[30] For example, Orion New Zealand Limited, *Submission on Information Disclosure Discussion Paper,* 11 September 2009, page 25.

[31] GAAP is defined in the Financial Reporting Act 1993.

Application of input methodologies

3.19. The Act requires that we determine, and that regulated suppliers apply, input methodologies (IMs).[32]

3.20. Suppliers must apply the following IMs to historical financial information disclosures:

3.20.1 Valuation of assets, including depreciation and treatment of revaluations

3.20.2 Allocation of common costs

3.20.3 Treatment of taxation.[33]

3.21. Suppliers do not have to apply IMs for evaluating or determining the cost of capital for information disclosure purposes. However, we can use estimates of the cost of capital under the cost of capital IM to monitor and analyse information disclosed under Part 4.[34]

Return on investment approach

Summary

3.22. For interested persons to assess whether the Part 4 purpose is being met they require an indicator(s) of profits. ROI is a commonly used measure of profitability which allows interested persons to compare relative performance of firms of different sizes. In particular measures of ROI allow interested persons to compare a supplier's profitability to what an efficient firm in a workably competitive market could expect to earn (its cost of capital).

3.23. Suppliers must provide the following information on ROI on both a vanilla and post-tax basis:

3.23.1 ROI indicator which assumes mid-year timings for revenue and expenditure items (mid-year ROI)

3.23.2 ROI indicator based on monthly notional cash flow if specified criteria are met (monthly ROI

3.23.3 ROI indicators which assume a year-end timing for revenue and expenditure items for comparison purpose (year-end ROI). This is derived from the expression for an internal rate of return (IRR) calculation undertaken over a one year period.[35]

3.24. Attachment E sets out the formulas for the mid-year and monthly ROIs and how they were derived.

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32 Commerce Act 1986, s 52P.
33 Commerce Act 1986, s 52T(1).
34 Commerce Act 1986, s 53F.
35 The 2008 requirements for EDBs used a year-end ROI.

Reasoning – ROI assuming mid-year timing

3.25. An ROI which assumes mid-year timing of revenue and expenditure can take account of intra-year effects and hence improve accuracy. This approach provides a good approximation of when transactions occur. It overcomes a limitation of the yearend ROI, which assumed year end timing and understated ROI. An ROI based on a mid-year timing assumption is a more accurate basis for interested persons to assess financial performance.

3.26. By having a supplier disclose the mid-year ROI indicator on both a vanilla and post-tax basis, interested persons can compare returns to both a vanilla WACC and post-tax WACC respectively.[36]

Reasoning – ROI based on monthly cash flows

3.27. Under some circumstances calculating the ROI using the supplier's monthly revenues and expenditure will result in a significantly better estimation of returns than using a mid-year ROI. Examples include when asset expenditure during the year is lumpy or revenue is seasonal.

3.28. Suppliers have the option of disclosing an ROI calculated using monthly cash flows (monthly ROI). Suppliers must disclose a monthly ROI if their cash flow is particularly volatile over the year.[37]

3.29. ENA, Powerco and Vector submitted that requiring firms to disclose a monthly ROI, when there was a 50 basis point difference between the mid-year and monthly ROI (as we proposed in the technical consultation), required that all firms must calculate the monthly ROI regardless of whether it made a material difference to the ROI result.[38] They considered using basis points to establish a threshold would increase compliance costs, and reduce the benefits from not requiring all firms to disclose an ROI based on monthly data. ENA also submitted that a typical supplier would not have a 50 basis point difference.[39]

3.30. Our final determinations only require suppliers to disclose monthly ROIs if in the first or last quarter of the disclosure year either the value of assets commissioned exceeds 10% of the opening RAB value or the notional net cash flows exceeds 40% of the annual notional net cash flows. We set these rates such that a supplier with

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36 Vanilla WACC is where the corporate tax shield provided by debt capital is ignored in the cost of capital calculation and post-tax WACC is where the cost of debt is adjusted down by an interest tax deduction. Further discussion on Vanilla and Post-tax WACC is available in Commerce Commission, *Input Methodologies (EDBS & GPBs) Reasons Paper*, 22 December 2010, paragraphs 6.7.1-6.7.2.

37 Specifically, suppliers must use a monthly approach if, during the first three months or last three months of the disclosure year the value of assets commissioned exceeds 10% of the opening RAB value, or notional net cash flows exceed 40% of the annual notional net cash flows.

38 ENA, *Submission on Information Disclosure Determination for Electricity Distribution Businesses: Technical Consultation*, 3 August 2012, paragraph 63 ; Powerco, *Submission on Technical Submission Information Disclosure Draft Determination,* 3 August 2012, paragraph 223-25; Vector, *Submission to the Commerce Commission on Information Disclosure Requirements for Electricity Distribution Businesses and Gas Pipeline Businesses: Technical Consultation,* 3 August 2012 page 18, paragraph 89.

39 ENA, *Submission on Information Disclosure Determination for Electricity Distribution Businesses: Technical Consultation,* 3 August 2012, page 18, paragraphs 67-68.

typical notional net cash flows or capital expenditure would only have to prepare the mid-year ROIs cash flow. We chose these criteria based on analysis of different cash flow and investment scenarios including testing with several suppliers' past regulatory financial disclosures and consideration of ENA's submission that a 50 base point difference was unlikely to occur.

3.31. Our final determinations have addressed ENA's concerns by introducing a simplified threshold based criterion which has the effect that a firm with a typical notional cash flow can readily confirm that it does not need to prepare a monthly ROI. This should reduce compliance costs for most suppliers.

Reasoning – ROI based on year-end timing

3.32. Suppliers must also disclose the year-end ROI on both a vanilla and post-tax basis. This will provide a quick reference indicator for interested persons and a reasonableness check on the calculation of other ROI formulas. This addresses a concern raised in submissions.

3.33. There was strong support in submissions for retaining the year-end ROI indicator. ENA submitted that the mid-year ROI formula is complicated, not readily understood by interested persons and not typically used as an annual profit measure.[40]

3.34. The Major Electricity Users Group (MEUG) submitted that interested persons may wish to compare ROI values using the year-end approach as well as the mid-year ROI.[41] Our final requirements support such comparisons by requiring suppliers to disclose both ROIs.

3.35. We developed the schedules such that the year-end ROI is calculated automatically using values which suppliers must disclose for the mid-year ROI. This means that the addition of the year-end ROI does not materially increase compliance costs.

3.36. The year-end ROI is to be calculated using input values determined in accordance with the current IM approaches. This will result in slight differences to the outcomes which would occur had year-end ROI been calculated using older IM approaches (as under our 2008 ID requirements.) The use of the current IM approach has significant benefits as it will reduce compliance costs, and aid comparisons with the mid-year ROI (since the two will be based on common assumptions about the RAB values and profitability.)

Regulatory profit

Summary

3.37. Suppliers must calculate their regulatory profit and disclose the results using the prescribed schedules. In making this disclosure, suppliers must:

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40 ENA, *Submission on Information Disclosure Requirements for Electricity Distribution Businesses: Draft Determination and Draft Reasons Paper,* 9 March 201, paragraph 19.

41 MEUG, *Submission to the Commerce Commission on the Draft Information Disclosure Determination and Draft Reasons Paper for Electricity Distribution Businesses,* 9 March 2012, paragraph 4.

3.37.1 follow prescribed IMs, including those for the treatment of taxation, revenue and operating expenses

3.37.2 disclose related party transactions using one of several valuation options. These options are intended to value related party transactions at rates consistent with arms-length transactions

3.37.3 disclose specified items which contribute to the calculation of the regulatory profit including: inter-year tax effects; calculation of the term credit spread differential allowance; and cost allocations.

Reasoning

3.38. Regulatory profit represents the returns earned by the supplier's business activities which are regulated under Part 4. This differs from whole-of-entity profits, both in scope of activities and how profit is calculated and presented. Information on regulatory profit helps interested persons assess whether suppliers are earning an appropriate economic return over time.

3.39. This section discusses the:

3.39.1 calculation of revenue including netting out non-discretionary discounts. Calculation of regulatory income, including net and gross line charge revenue for EDBs, helps interested persons understand performance pre –and-post discretionary discounts and customer rebates.

3.39.2 treatment of related party transactions so that interested persons can assess the extent to which reported performance may be influenced by related party transactions.

3.39.3 calculation of the term credit spread differential allowance which recognises the additional costs associated with debt, that has a term greater than five years.

3.39.4 treatment of taxation, including accounting for the effect of permanent and temporary timing differences.

3.39.5 tax treatment for Maui Development Limited (MDL) which recognises its unique joint venture structure.

3.39.6 approach to gain/loss on sale of assets so interested persons can remove any resulting volatility in regulatory profit.

3.39.7 treatment of capital contributions and vested assets which are not recognised as income for regulatory purposes. This approach removes the potential for large or volatile levels of capital contributions and/or vestings to distort the ROI results.

3.39.8 treatment of various expense items including pass through and recoverable costs, and merger and acquisition costs. Our requirements help ensure that the disclosed expense amounts reflect the suppliers' underlying costs and provide consistency across suppliers.

3.40. Depreciation, which is included in the calculation of regulatory profit, is discussed later in this chapter. The breakdown of expenditure is disclosed separately in Schedules 6a and 6b.

Revenue, discretionary discounts and customer rebates for EDBs

3.41. Suppliers must disclosure regulatory revenue such that:

3.41.1 all regulated revenue is recognised in the year that it is received so that there is no transfer of revenues between years;

3.41.2 regulatory revenue is net of non-discretionary discounts, but not discretionary discounts (also called distributions). Specifically revenues for EDBs are to be disclosed before the deduction of any financial distributions.

3.42. Under the Act, all income associated with the supply of regulated services is regulated. However, regulatory income as disclosed in regulatory profit requires adjustments to accommodate unique characteristics of regulated services and to align with the IMs and other regulatory components.

3.43. Where a supplier includes a discount in its published prices, it is the price including the discount that the consumer responds to. We therefore consider the price, net of the discount, should form the basis of performance measures.

3.44. In contrast, where consumer owned EDBs return profits to owners (consumers) we consider that, for purposes of determining regulatory income, this is equivalent to a dividend. This is the case even where the profits are distributed through discretionary discounts or customer rebates. Thus suppliers must disclose discretionary discounts and customer rebates at the pre-tax amounts.[42] This means that the distribution should not affect the disclosed regulatory profit. (This is irrespective of the way these payments are treated for accounting and tax purposes.)

3.45. The requirement to recognise revenue in the year that it is received is irrespective of any mechanisms provided in operating agreements or under other regulation. MDL's operating agreement includes a mechanism that provides for the return of excess revenue or recovery of under recovery of revenue that has resulted from fluctuations in demand. We require that revenue is disclosed without the effect of this mechanism.

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[42] For a discussion on the tax effects which arise because the Inland Revenue Department (IRD) recognises rebates as a tax deductible expense, refer to the IM reasons Paper. Commerce Commission, *Input Methodologies (Electricity Distribution and Gas Pipeline Services) Reasons Paper,* 22 December 2010, at paragraphs G2.40-G2.47.

Valuing related party transactions

3.46. We have developed requirements for valuing related party transactions.[43] This is necessary as related parties may have different incentives, when setting the terms and conditions of transactions, from unrelated parties.

3.47. The terms (especially price) and conditions agreed between the related parties can influence the information disclosed by the regulated entity. These transactions are potentially substantial enough to impact on the ROI. For this reason, it is important to ensure the values assigned to related party transactions are based on objective criteria, and verifiable information. Such transparency helps interested persons understand the impact of these transactions and understand the impact on the ROI over time.

3.48. Suppliers may value related party transactions based on several options which are linked to specified objective and verifiable information including:

3.48.1 For services or goods acquired from related parties using one of six options:

3.48.2 Directly attributable cost

3.48.3 For electrical or gas contracting services, at the directly attributable cost plus 17.2%

3.48.4 Price paid by the suppliers' if either:

a. at least 50% of the related party's sales are to unrelated parties and unrelated parties may obtain substantially similar terms and conditions including price; or

b. the price (adjusted for inflation) is substantially the same as the supplier had for similar purchases with the preceding three disclosure years

3.48.5 Price paid by the supplier if the value of the suppliers related party transactions falls below certain thresholds

3.48.6 A price linked to the outcome of a competitive tender process

3.48.7 An amount certified as being that which would be received in an arm's-length transaction

3.48.8 Should suppliers be unable to value a good or service from a related party transaction using one of the above options, the transaction must be valued at zero.

[43] For EDBs this is a change in approach to the treatment of related party transactions under the previous EDB ID requirements.

3.48.9 For the price received by the supplier from a sale or supply to a related person either the price the purchasing party must disclose in accordance with a Commission determination or one of three options which are linked to costs incurred or arm's-length prices.

3.48.10 For additions to the RAB, assets which were acquired from a related party must be valued in accordance with the IM determination.

3.49. These options give supplier choices for valuing related party transactions at prices that approximate arm's length transactions (in workably competitive markets). As a result, the disclosed transaction value may differ from the transaction value used for statutory and taxation purposes (which may not be set at arm's length prices). This difference is important as the purpose of information disclosure is to allow interested persons to assess performance against the objectives of Part 4 and to do so the values disclosed must be objective and approximate arm's-length prices.

3.50. We included the option of having directors certify the value of related party transactions to provide suppliers with the opportunity to disclose an arm's-length value should none of the other options apply. This addresses a concern raised in submissions about what happens when none of the other options applies.[44] For example, director certification could be used to value a service with high capital costs and low directly attributable costs, which is provided by a related party that does not normally sell similar service to unrelated parties, but when other firms sell similar services.

3.51. In finalising our requirements for related party transactions we included provisions to address several concerns raised in submissions.

3.52. Several submitters raised concerns about the methodology underpinning and/or adequacy of the 17.2% maximum mark-up on electrical or gas contracting services.[45] The Commission does not consider the arguments sufficient to justify a change to the specified maximum mark-up rate. The Commission based this rate on external benchmarking.[46]

3.53. Suppliers may value some related party transactions at the transaction value, where the related party makes at least 50% of its sales to unrelated parties, at demonstrably the same prices. This rate was recommended by some submitters,

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44 For example NERA, *Treatment of Related Party Transactions - A report for the ENA*, 9 March 2012.

45 Unison Networks Ltd, *Submission on Information Disclosure Requirements for Electricity Distribution Businesses and Gas Pipeline Businesses - Update Paper for Technical Consultation,* (public version) 3 August 2012, page 4, paragraph 1; and page 13, paragraph 23; *NERA, Treatment of Related Party Transactions - A report for the ENA,* 9 March 2012, paragraph 3.2; Orion, *Submission on Information Disclosure Requirements for Electricity Distribution Businesses: Draft Determination and Draft Reasons Paper,* 9 March 2012; paragraph 64-65.

46 Refer to attachment E for details.

who considered that a 75% threshold was too high and in some circumstances would be unachievable.[47]

3.54. Submitters noted that in practice tenders can be run in a variety of ways and that there are commercial reasons for accepting multiple tenders or not always accepting the lowest price tender.[48] ENA submitted that it is not reasonable to impose a lowest qualifying tender test, as a higher-quality/higher-cost tender is a reasonable outcome in a competitive market. [49] NERA supported this, stating that it is not obvious that a tender should always be 'open' and always be awarded to the lowest bidder. [50]

3.55. We have structured the option for valuing related party transactions, which result from a competitive tender process, to allow for both open and closed tenders. We also accept that there may be situations where the lowest cost tender may not produce the best service outcome. We have therefore included a 5% variance threshold, so that the transaction price of the winning tender may be used to value related party transactions where (amongst other criteria) it is no greater than 105% of the lowest cost tender. We have included provisions for valuing sales by suppliers to related parties. These provisions generally mirror those for purchase of assets, goods and services from related parties. MGUG identified the need for such a provision in a submission.[51]

3.56. MDL's disclosure of related party transactions is limited to non-routine transactions only, in recognition of MDL's unique circumstances. MDL submitted that controls on related party transactions are already included in the MDL Pipeline Operating Code and include ring-fencing, and rules about arm's-length operations.[52] MDL submitted that these are adequate controls which provide comfort for its customers.

Implementation of related party transactions requirements

3.57. Some submitters, including ENA and Unison, raised concerns about the specifics of how the related party requirements should be implemented. Issues included the

47 For example, Orion, *Submission on Electricity and Gas Input Methodology Determination Amendments 2012,* 1 June 2012, page 3; Aurora, *Submission to the Commerce Commission on its Draft Amendments to Decisions 710 under s52X of the Commerce Act 1986,* 1 June 2012, page 3.

48 Orion, *Submission on Information Disclosure Requirements for Electricity Distribution Businesses: Draft Determination and Draft Reasons Paper*, 9 March 2012 (paragraph 49); PowerNet, *Submission to the Commerce Commission on the Draft Information Disclosure Determination and Draft Reasons Paper for Electricity Distribution Businesses*, 9 March 2012 (paragraph 5.5 – 5.6).

49 ENA, *Submission on Information Disclosure Requirements for Electricity Distribution Businesses: Draft Determination and Draft Reasons Paper*, 9 March 2012 (paragraph 121).

50 NERA, *Treatment of Related Party Transactions - A report for the ENA*, 9 March 2012.

51 MGUG, Information Disclosure Requirements for Electricity Distribution Businesses and Gas Pipeline Businesses Draft Reasons Paper dated 16 January 2012, and Draft Commerce Act (Gas Transmission Services Information Disclosure) Determination 2012, 9 March 2012.

52 MDL, *Submission to the Commerce Commission on the Draft Information Disclosure Determination and Draft Reasons Paper for Electricity Distribution Businesses*, 9 March 2012.

aggregation of low value transactions, captive insurance companies, and the use of related parties to install network assets.[53]

3.58. We recognise that the implementation of the new requirements for related party transactions may raise issues and are prepared to work with suppliers in implementing these provisions. We have developed transitional provisions in recognition of the issues which suppliers may face in valuing past related party transactions.

3.59. We recognise that for some suppliers the number of individual related party transactions will be high and that it would be counterproductive either to value or to disclose each such transaction individually. Accordingly we expect that suppliers will value and disclose related party transactions at a level which balances transparency, the need for interested persons to make informed assessments, and compliance costs. For example, it may be reasonable to disclose together all similar services resulting from one contract.

3.60. Attachment E presents our views on the implementation of the requirements for captive insurance companies, pass through costs, and valuing installation work on network assets performed by related parties.

Term credit spread differential

3.61. Suppliers can where applicable, when calculating regulatory profit, recognise an allowance for a long-term credit spread differential by disclosing specified information about long-term credit.

3.62. A firm with long-term debt may incur a credit spread that, due to the long maturity of that debt, is greater than what is assumed in the WACC. [54] This greater cost is known as the term credit spread differential.

3.63. The term credit spread differential allows regulated suppliers to recognise the greater credit spread on long-term debt as an expense in regulatory profit.[55] Further reasoning for recognising a term credit spread differential allowance is outlined in the IM Reasons Paper.[56]

3.64. Submissions raised concerns about the commercial confidentiality of the terms of the term credit agreements and sought for this information not to be publicly

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[53] Unison Networks Ltd, *Submission on Information Disclosure Requirements for Electricity Distribution Businesses and Gas Pipeline Businesses - Update Paper for Technical Consultation,* (public version) 3 August 2012, page 11-13; ENA, *Submission on Information Disclosure Determination for Electricity Distribution Businesses: Technical Consultation,* 3 August 2012, page 12, paragraphs 36-42.

[54] The cost of capital IM estimates a debt premium based on a term of five years, but some firms may have debt with a longer term.

[55] It also re-adjusts the allowance for debt issuance costs and allows for the cost of entering an interest rate swap. Commerce Commission, *Input Methodologies (Electricity Distribution and Gas Pipeline Services) Reasons Paper,* 22 December 2010, paragraphs 6.3.27-6.3.35, and Appendix H6.

[56] Commerce Commission, *Input Methodologies (Electricity Distribution and Gas Pipeline Services) Reasons Paper,* 22 December 2010, paragraphs 6.3.27-6.3.35, and Appendix H6.

disclosed.[57] Vector submitted that they had agreements which contained confidentiality clauses and that making the terms of these agreements public would disadvantage them when tendering for future credit.[58]

3.65. We require suppliers to publish the aggregate of the term credit spread differential values and the calculation required to determine the credit spread differential allowance.

3.66. However, we do not require suppliers to publish details on individual debts. Rather, they must provide this information on a confidential basis to the Commission. This approach addresses concerns raised in submissions. Suppliers may voluntarily disclose information on individual debts.[59]

3.67. We do not require suppliers to disclose detailed information on non-qualifying debt. This change from our draft decisions reduces compliance effort and provides suppliers with greater confidentiality.

Regulatory tax allowance

3.68. Suppliers must prepare and disclose a reconciliation of regulatory profit to the regulatory tax allowance, which is calculated in accordance with the treatment of tax provisions of the IM Determinations.[60]

3.69. Regulatory tax is a significant component of regulatory profit, and so an important determinant of the ROI. In determining tax expense it is standard practice for businesses to take accounting profits and adjust them to determine taxable income for which the tax expense is derived. We consider that suppliers, therefore, should have information that reconciles the regulatory income to taxable income.

3.70. The IM Reasons Paper outlines our methodology for disclosing the calculation of the regulatory tax allowance in greater detail.[61]

MDL exemptions relating to regulatory tax

3.71. Since MDL has a joint venture structure, it is not a tax paying entity. Accordingly, MDL is not required to complete the effective tax rate, tax permanent differences and temporary differences sections of the regulatory tax allowance schedule. Rather, MDL is required to adopt the statutory tax rate.

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57 For example Powerco, *Submission on the Draft Commerce Act (Electricity Distribution Services Information Disclosure) Determination and Draft Commerce Act (Gas Services Information Disclosure) Determination 2012*, 9 March 2012, page 9.

58 Vector, *Submission to the Commerce Commission on the IDRs for Electricity Distribution Businesses and gas Pipeline Businesses,* 9 March 2012 paragraphs 113-121.

59 Some suppliers may have term credit arrangements which are not confidential (for example, if the funds were raised via a public issue of bonds).

60 See part 2, subpart 3 of each of the IMs Determinations. *Commerce Act Electricity Distribution Services Input Methodologies Determination*, 23 December 2010; *Commerce Act Gas Distribution Services Input Methodologies Determination*, 23 December 2010; *Commerce Act Gas Transmission Services Input Methodologies Determination*, 23 December 2010.

61 Commerce Commission, *Input Methodologies (Electricity Distribution and Gas Pipeline Services) Reasons Paper,* 22 December 2010, Chapter 5.

3.72. MDL submitted that, as it is not a tax paying entity, it should be able to apply a notional tax rate and be exempt from having to complete the tax permanent differences and temporary differences sections of the report on ROI. It cannot compel its joint venture parties to provide the relevant information.[62]

3.73. We agree with MDL's submission that this unique situation would create compliance difficulties, not faced by other suppliers. We also consider that the value of any information derived from the venture partner effective tax rates would be of limited value to interested persons due to the impact of external factors.

Cost allocation disclosures

3.74. The allocation of costs can impact significantly on the reported performance. Accordingly, interested persons need to understand the degree to which common costs have been allocated, and where that allocation has changed, to assess a regulated supplier's performance.

3.75. The IM Reasons Paper outlines how costs and asset values are to be allocated between regulated and unregulated activities.[63]

3.76. Suppliers must disclose information about the cost and asset allocator used within each operating cost or asset category. This includes the value of:

3.76.1 costs directly attributable to regulated services for each operating cost or asset category

3.76.2 not directly attributable costs/asset value for each operating or asset category

3.76.3 any OVABAA allocation increase.

3.77. We also require that when cost or asset allocation methodologies or cost or asset value allocator metrics change, additional disclosure of operating cost line items and assets must be made in the year of change.

Gain / loss on sale of assets

3.78. Gains and losses on the sale of an asset are, in most instances, to be recognised and disclosed as income.

3.79. The sale of an asset used to provide regulated services will typically occur at a price other than the asset's regulatory carrying value, resulting in a regulatory gain or loss on sale. This is consistent with GAAP, where the difference between the sale price of an asset and the book value is reflected as a gain or loss in income. The recognition of the gain or loss provides for the full economic benefit or cost of owning the asset to be reflected in regulatory profits.

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62 MDL, *Submission to the Commerce Commission on the Draft Information Disclosure Determination and Draft Reasons Paper for Electricity Distribution Businesses*, 9 March 2012 (paragraphs 4–12).

63 Commerce Commission, *Input Methodologies (Electricity Distribution and Gas Pipeline Services) Reasons Paper,* 22 December 2010, chapter 3.

3.80. The sale of an asset between suppliers is, however, treated differently. Where a regulatory asset is sold to another supplier, the asset base from which acquirer can earn a return must not be affected by the price.[64] As such, if the sale value of the asset is not recognised in the RAB of the acquirer then it would be inconsistent with the concept of financial capital maintenance for the seller to recognise the gain or loss on sale.

3.81. The sale of an asset between regulated and unregulated business units is treated separately. Any asset transfers between regulated and unregulated business units within the same entity are notional as there is no actual transfer of title. Accordingly, the value is open to manipulation, which in turn can create a transfer of wealth between the supplier and its customers. To address this concern such assets are deemed to have been disposed of at their regulatory carrying value, which results in there being no gain or loss on disposal.

Capital contributions and vested assets

3.82. Treating capital contributions or vested assets as income would cause volatility in disclosed ROIs, and would make it more difficult for interested persons to understand changes in the ROI over time. Suppliers must therefore include vested assets in the RAB value at the cost to the regulated supplier. For capital contributions, the value of the commissioned asset, net of the contribution by the customer or third party, is recognised in the RAB.[65]

3.83. To be consistent with the IM determinations (but differing from GAAP) capital contributions and vested assets are not recognised as regulatory income.

3.84. Capital contributions are contributions received from a customer or another third party for the purpose of constructing or enhancing an asset. Vested assets are those assets which are constructed by a third party, and are transferred to the supplier. Vested assets may be transferred for no consideration or for partial consideration.

Reporting for other profit items

3.85. We have also specified how suppliers must disclose information on a range of other items which impact regulatory profit, including requiring:

3.85.1 recognition of merger and acquisition cost to the extent the merger or acquisition benefits the regulated service. This allows costs to be matched with benefits. Merger and acquisition expenses tend to be irregular, but may be substantial when they occur. Accordingly, for interested persons to have sufficient information to assess profits and expenditure, merger and acquisitions costs are required to be separately disclosed

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64 The concept of financial capital maintenance, (FCM) provides for a normal return over the lifetime of the regulated assets, irrespective of whether the asset is sold or transferred between regulated suppliers.

65 This approach is consistent with the IMs. See Commerce Commission, *Input Methodologies (Electricity Distribution and Gas Pipeline Services) Reasons Paper,* 22 December 2010, E7.1-E7.5.

3.85.2 disclosure of pass through and recoverable costs. To assess profitability and efficiency interested persons need an understanding of costs that are outside the control of management[66]

3.85.3 only self-insurance costs approved through a CPP may be recognised as an expense in regulatory profit.

Value of the Regulatory Asset Base

Summary

3.86. Suppliers must provide the following information on their Regulatory Asset Base (RAB) value:

3.86.1 The value of the initial RAB as of 31 March 2009 and how it was rolled forward to reach the RAB values as of 31 March 2012

3.86.2 Annual roll forward of the RAB value to determine the closing value of the RAB

3.86.3 Details of the key components of the above disclosures including information on taxation, asset revaluations, asset allocations and depreciation;

3.86.4 details on the value of works under construction which represents likely future additions to the RAB value.

Reasoning

3.87. The RAB value is important to interested persons as it is a major component of the ROI calculation, which is a key indicator in assessing whether the Part 4 purpose is being met.

3.88. As electricity distribution, gas distribution and gas transmission are asset intense, the RAB value can be substantial and movements in the RAB value can have a material impact on the RAB value. Hence interested persons need information on the value, composition, and movements of the RAB value. They also need information on non-network assets, such as deferred taxation balances, because these can be significant. Together this information lets them assess the underlying value of the assets, and their impact on profits and other regulatory objectives in the Part 4 purpose.

3.89. In particular, they need sufficient information on how the RAB value was rolled forward to understand changes in the RAB value, and how this affects the ROI from year to year. To provide this information, suppliers must first establish an initial RAB,

1. [66] Pass through and recoverable costs are considered to be outside the control of management and are therefore excluded from price-quality path regulation. Although they are included in the ROI calculation, it is appropriate to exclude them from efficiency assessments and therefore they are not disclosed as part of operational expenditure.

roll it forward to the start of the 2012 disclosure year and then roll it forward on an annual basis.

Initial RAB disclosures

3.90. As network assets typically have long lives, it is important to ensure that assets which pre-date the 2011/12 disclosure year are appropriately valued in the initial RAB.

3.91. In implementing the asset valuation IM, suppliers must establish an initial RAB by making some adjustments to the previously disclosed value of the RAB including:

3.91.1 allowing amendments to asset values where the asset valuation IM provides for the revaluation of assets under certain circumstances (asset adjustment process)[67]

3.91.2 adjustments to the total RAB value for assets excluded under the IM and for the application of the cost allocation IM.

3.92. If a supplier elects to amend asset values as part of the asset adjustment process, it must provide a report from an independent engineer supporting the adjustment.[68] This helps interested persons assess the reasonableness of the new asset values.

Roll-forward of initial RAB balances

3.93. Suppliers must roll forward the initial RAB values to the start of the 2013 disclosure year. This is the first disclosure year for which the current ID Determination applies.

3.94. In rolling the initial RAB values forward suppliers must disclose movements in key components of the RAB to provide interested persons with transparency of the RAB values.

Annual roll-forward of RAB balances

3.95. Suppliers must disclose the RAB roll-forward including movements in key components for each subsequent disclosure year The unallocated value of the assets in the RAB is also disclosed for the current disclosure year to provide interested persons with transparency of the allocation process.

3.96. The RAB roll forward is calculated in accordance with the asset valuation provisions of the IM determination.[69] As outlined in the IM Reasons Paper the RAB value in any given year is determined by rolling forward the unallocated value of the assets in the

67 Under clause 2.2.1 of each of the IM Determinations.

68 The information requirements for the engineer's report are set out in Attachment C of the EDB ID determination. Attachment C refers to the 2004 ODV valuation and ODV handbook (as defined in clause 1.1.4 of the IM determination).

69 See Part 2, Subpart 2 of each of the IM Determinations. *Commerce Act Electricity Distribution Services Input Methodologies Determination*, 23 December 2010; *Commerce Act Gas Distribution Services Input Methodologies Determination*, 23 December 2010; *Commerce Act Gas Transmission Services Input Methodologies Determination*, 23 December 2010.

RAB from previous years and allocating the relevant values to the RAB.[70] The RAB roll-forward includes an adjusting item which accounts for changes over time in the proportion of shared assets which are used for providing specified services.[71]

3.97. To help interested persons better understand capital expenditure and how the closing value of the RAB was reached, suppliers must disclose details on the roll forward of works under construction. This disclosure must show the value of capital expenditure and assets commissioned in accordance with the relevant asset valuation IM.[72]

3.98. To ensure comparability to the forecasts of key capital projects and the RAB (both of which are allocated) as well as to the unallocated closing value of the assets in the RAB, suppliers must disclose both unallocated and allocated values for works under construction. For reasons of simplicity and consistency, this allocation must be calculated in a manner consistent with either the principles of the Cost Allocation IM or the assumptions used in formulating the key capital expenditure forecasts.

Depreciation

3.99. Depreciation is a significant component of the suppliers' capital costs included in regulatory profit and is therefore a key consideration for interested persons when assessing returns over time. Changes in how suppliers depreciate their assets can directly affect the ROI measure. Accordingly, suppliers must disclose information on depreciation, including where non-standard depreciation has been applied, as this may affect the ROI.

3.100. The IM Determinations specify that a straight line depreciation method must be applied as the standard depreciation profile, but provides flexibility in respect of the asset lives used (under the straight line depreciation method) under certain circumstances, such as when particular assets are refurbished or are considered to have shorter lives than normal. The IM Determinations require the suppliers to base some of these changes on asset lives determined by an engineer and provide for the engineer's report to be disclosed under ID.

3.101. The IM Determinations also provide for suppliers subject to CPPs to have us approve changes to asset lives or to the depreciation methodology as part of the CPP process.

3.102. Suppliers must disclose the following information about depreciation annually:

3.102.1 Total depreciation for both the unallocated RAB and RAB

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70 Commerce Commission, *Input Methodologies (Electricity Distribution and Gas Pipeline Services) Reasons Paper,* 23 December 2010, Chapter 4.

71 Line entry 'adjustment resulting from cost allocation' on Schedules 4 and 23 of the ID Determination.

72 Addressed in Part 3 of the IMs Determinations. See part 2, subpart 2 of each of the IM Determinations. *Commerce Act Electricity Distribution Services Input Methodologies Determination*, 23 December 2010; *Commerce Act Gas Distribution Services Input Methodologies Determination*, 23 December 2010; *Commerce Act Gas Transmission Services Input Methodologies Determination*, 23 December 2010.

3.102.2 Breakdown of depreciation by standard depreciation, depreciation modified in accordance with CPPs, depreciation on modified life assets (extensions and reductions to asset lives) and other depreciation which is not based on standard asset lives (fixed life easements, dedicated assets, based on a recommendation in an engineer's report).

3.103. To help interested persons understand changes to depreciation profiles, suppliers are required to provide further details, including the reason for and impact of any changes, in the year in which a change is made for:

3.103.1 all changes which are in accordance with the CPP process

3.103.2 all changes which reduce the life of assets. Interested persons may be interested in reductions to asset lives as these can significantly increase depreciation costs in particular years

3.103.3 dedicated assets which are assets operated for a fixed term for a particular consumer

3.103.4 any other change to asset lives which must be supported by an engineer's report under the IM.

3.104. Suppliers must disclose all engineers' reports supporting changes in asset lives which are required by the IM Determination. This will help interested persons assess the reasonableness of these changes, and the compliance costs of disclosure should be low as the reports are already required under the IM Determination. Suppliers may voluntarily provide disclosure about other types of changes to depreciation.

3.105. We chose the above items for further disclosure, as we consider that these are the areas of most value to interested persons relative to the compliance costs. We based our choice of categories on those in the IM Determinations. Suppliers do not need to provide disclosure about the depreciation relating to fixed life easements, found assets, those with an asset life based on a similar asset class (that has a standard life), and composite assets (where the weighed asset life is based on standard lives) as we consider the compliance costs would outweigh the benefits.

3.106. ENA raised several concerns about the disclosure of non-standard depreciation being overly encompassing. Our final determination has reduced the number of types of assets for which further disclosure is required and does not require disclosure relating to the impact of changes made in prior years. ENA supported disclosure relating to modified life assets and alternative disclosure approved in accordance with the CPP process.[73]

[73] ENA, *Submission on Information Disclosure technical Consultation*, 3 August 2012 (paragraph 73-78).

3.107. ENA also raised a concern about requiring disclosure at an individual asset level.[74] We consider that changes for relatively small value assets which are of the same asset type and are made for the same reason can be grouped together.

Works under construction

3.108. Suppliers must disclose details on the roll-forward of works under construction, including the value of capital expenditure and assets commissioned in accordance with the relevant asset valuation.

3.109. GAAP requires the disclosure of works under construction, which is the value of assets being constructed or assets which have been constructed but not yet commissioned. The disclosure of these allows interested persons to reconcile their assessment of capital expenditure with the roll-forward of the RAB. The closing value of works under construction provides interested persons with some indication of expenditure to date on future additions to the RAB value.

3.110. To ensure comparability to the forecasts of key capital projects and the RAB, both of which are allocated, as well as to the unallocated value of the assets in the RAB disclosed in the RAB roll-forward, the ID Determination requires that both unallocated and allocated values are disclosed for works under construction. For reasons of simplicity and consistency, this allocation must be calculated in a manner consistent with either the principles of the Cost Allocation IM or the assumptions used in formulating the key capital expenditure forecasts.

Disclosure to assess compliance

3.111. Section 53B(1)(c) of the Act requires regulated suppliers to supply us with any statement, reports, agreements, particulars or other information required for the purpose of monitoring their compliance with the determination. As such, the ID Determinations serve as notice for the purpose of s 53B(1)(c).

Cost allocation

3.112. In addition to the public disclosure of cost allocation information, regulated suppliers must disclose additional information to us to explain how allocations have been made. This helps us to monitor compliance with the cost allocation requirements. This information is not made available to other interested persons.

3.113. As outlined above, certain information is required to be publicly disclosed to help interested persons understand how the cost allocation IM has been applied. The detail of this disclosure is limited to restrict the amount of information disclosed about unregulated services.

3.114. In the IMs Reasons Paper we outlined how we may require additional disclosure relating to unregulated services that allows us to monitor compliance.[75] Pursuant to

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[74] ENA, *Submission on Information Disclosure technical Consultation*, 3 August 2012 (paragraph 73-78).

[75] Commerce Commission, *Input Methodologies (Electricity Distribution and Gas Pipeline Services) Reasons Paper,* 22 December 2010, Appendix D, paragraph D5.1.

s53B(1)(c) of the Act this information is required to be disclosed through Schedules 5d and 5e of the determination.

Consolidation statements

3.115. We do not require suppliers to prepare or disclose regulatory consolidation statements. We consider that the costs of preparing these statements outweigh their benefits. We can require that consolidated information be disclosed to us (for example, under s53B(1)(c)) from time to time, where we consider it appropriate.

3.116. We consider the cost of preparing consolidated information is high where:

3.116.1 information prepared for regulatory purposes is on a different basis from general purpose financial statements. This is particularly the case for most of the RAB information and regulatory tax, which are based on regulatory requirements rather than aligned with GAAP

3.116.2 EDBs and GPBs, in some instances, also have different regulatory disclosure year-ends from their general purpose financial statements. This complicates and increases the cost of preparing consolidated information.

3.117. We also consider that the audit and certification requirements provide a reasonable level of assurance. Interested parties will be able to compare the regulatory accounts to the statutory reports to see the differences in reported values.

Assurance and certification of historical financial information

3.118. Suppliers must provide assurances as to the level of compliance with the ID requirements for the historical financial information including:

3.118.1 external audit assurance of the financial information disclosed in schedules 2 to 7

3.118.2 having director certification for all disclosed financial information

3.118.3 specific certification by directors for some related party transactions.

Transitional provisions of historical financial information

3.119. We have specified transitional provisions for disclosures on the establishment of the initial RAB and other balances that require roll forward, and to allow regulated suppliers sufficient time to establish systems to collect information that has not previously been collected.

3.120. We require suppliers to complete a transitional schedule on financial information (Schedule 5h). EDBs who choose to adjust their initial RAB value (as permitted by the IM determination) must disclose an engineer's report, and summary information in Schedule 5i on the adjustments made to the initial RAB value. Having suppliers disclose this transitional information will allow interested persons to better understand how the initial RAB value was established.

3.121. Unison and ENA raised the issue of how suppliers should treat past transactions in future disclosures under the determination.[76]

3.122. We consider that, to the extent a supplier has already calculated the regulatory value for assets commissioned since 1 April 2009, under the previous criteria, this value complies with the amended IMs and can be used for information disclosure purposes. Suppliers may choose to re-assess the regulatory value of assets previously acquired through related party transactions using the new options available for values of such assets. However, they are not required to do so for past transactions.

3.123. We have also established transitional provisions for related party transactions for operating expenses incurred and sales made in the 2012/13 disclosure year. This acknowledges that suppliers may face difficulties obtaining the information required to comply with the new requirements for current and past transactions.

[76] ENA, *Submission on Information Disclosure Determination for Electricity Distribution Businesses: Technical Consultation,* 3 August 2012, page 12, para 39-41; and Unison Networks Ltd, *Submission on Information Disclosure Requirements for Electricity Distribution Businesses and Gas Pipeline Businesses - Update Paper for Technical Consultation,* (public version) 3 August 2012, page 8; paragraph 16-17.

4. Pricing and related information

Table 4: Pricing and related information: overview

Pricing information: description and link to Part 4 purpose	Pricing disclosures help interested persons to understand how prices are set, and to compare prices for different consumer groups. Pricing and related disclosures help interested persons answer key questions about suppliers' performance: • Do the prices set by suppliers promote efficiency? • Are suppliers sharing the benefits of efficiency gains with consumers, including through lower prices?	
Pricing information disclosure category	**Requirements**	**Reference in Determination**
Pricing methodologies	Pricing Methodologies must be disclosed, including: • target revenue information (where applicable) • discussion of the extent of consistency of the pricing methodology with the pricing principles • pricing strategies • approach to pricing for non-standard contracts and distributed generation • disclosure of consumer consultation on price and quality	Clauses 2.4.1 to 2.4.5
Capital contributions	Current policy for determining circumstances and amount of capital contributions. Statement of whether an independent contractor can be used. The extent to which any policy is consistent with pricing principles. Standard schedule of charges (if available).	Clauses 2.4.6 to 2.4.8

Policies related to discretionary discounts (EDBs only)	Public disclosure of the allocation methodology used to determine how the financial distributions were made.	Clauses 2.4.24 and 2.4.25
Prescribed terms and conditions of contracts (standard and non-standard)	*Standard contracts* Disclosures of prescribed terms and conditions. Disclosures of modifications. *Non-standard contracts* Disclosure of limited or full prescribed terms and conditions (not including price), 5 months after disclosures year end. Full disclosure of prescribed terms and conditions (not including price) on request. Disclosures of modifications.	Clauses 2.4.9 to 2.4.17
Disclosure of prices	Public disclosures of current prices. Disclosure of changes in prices, either in news media (EDBs and GDBs) or in writing to consumers, 20 working days before changes take effect.	EDBs and GDBs: clauses 2.4.18 to 2.4.20 GTBs: clauses 2.4.18 to 2.4.19
Disclosure of information on pricing outcomes (quantities and revenues billed)	Completion of Schedule 8 within 5 months of the end of the disclosure year for EDBs, or 6 months for GDBs and GTBs.	EDBs: clauses 2.4.22 and 2.4.23 GDBs: clauses 2.4.21 and 2.4.22 GTBs: clause 2.4.20 Schedule 8

4.1. This chapter sets out our decisions on the disclosure of pricing-related information for EDBs and GPBs, and the reasons for these decisions. Specifically, this chapter provides information on:

4.1.1 interested persons' need for pricing information to assess the performance of regulated suppliers, in order to understand whether the Part 4 purpose is being met

4.1.2 our decisions for pricing information disclosure requirements that apply to EDBs and GPBs, and the reasons for these decisions;

4.1.3 the timing of pricing disclosures;

4.1.4 the specific transitional provisions that apply to disclosure of pricing information

4.1.5 the specific assurance and certification provisions that apply to pricing information required to be disclosed.

Why interested persons need pricing information to assess performance

4.2. In a workably competitive market, suppliers can be expected to share efficiency gains they achieve to consumers, including through lower prices. The disclosure of historical and forecast pricing information can therefore help interested persons assess whether the prices set by regulated suppliers reflect the benefits of historical efficiency gains.

4.3. In a workably competitive market, prices also promote efficiency. Pricing information can inform interested persons about whether the pricing methodologies adopted by regulated suppliers are promoting the same outcome.

4.4. Pricing information helps interested persons answer some of the key performance questions necessary to understand if the Part 4 purpose is being met. As discussed in Chapter 2 (paragraph 2.55), pricing information helps interested persons understand:

4.4.1 whether suppliers are sharing the benefits of efficiency gains with consumers through lower prices;

4.4.2 whether prices set by suppliers promote efficiency. This also includes assessing whether suppliers are providing services at a quality that reflects consumer demands

4.4.3 pricing information is also relevant to understanding whether suppliers are earning excessive returns over time.

Decisions on pricing information disclosure requirements

4.5. A variety of pricing information is necessary for interested persons to undertake these assessments and to understand whether the Part 4 purpose is being met. Our ID Determinations therefore require disclosure of information about:

4.5.1 how prices are set[77]

4.5.2 the actual prices set, and the terms and conditions related to those prices

[77] GPBs and non-exempt EDBs are subject to default/customised price-quality regulation, which caps the overall level of revenue the supplier can earn, but leaves suppliers able to determine the structure of prices.

4.5.3 pricing outcomes, including the revenues received and quantities billed.

4.6. Below we set out our decisions on these three categories of pricing-related information. We consider that our requirements achieve a balance between cost-effectiveness and the need for sufficient information to be disclosed to assess suppliers' performance against the Part 4 purpose.

How prices are set

4.7. This category of pricing disclosures provides information on suppliers' approaches to setting prices. Under our ID Determinations we have decided that regulated suppliers must disclose:

4.7.1 pricing methodologies

4.7.2 policies or methodologies for determining capital contributions

4.7.3 policies related to discretionary discounts and rebates.

Requirements for disclosure of pricing methodologies

4.8. We have decided that regulated suppliers must disclose pricing methodologies that provide sufficient information for interested persons to understand how prices were set. Pricing methodologies explain how suppliers allocate the costs of providing lines or pipelines services among consumer groups, and how they plan to recover these costs through prices in future. This information will enable interested persons to assess whether actual prices are efficient, and whether prices are likely to promote efficient outcomes in future.

4.9. Suppliers must also demonstrate the extent to which the pricing methodology is consistent with the relevant pricing principles and explain the reasons for any inconsistency between the pricing methodology and the pricing principles.[78] In the case of GPBs, this is consistent with the IMs for GPB pricing methodologies.[79] With the support of submitters, and for consistency with the approach for gas ID, we have

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78 For EDBs, the pricing principles are those published by the EA and incorporated by reference into the EDB ID Determination (see Attachment F, and Electricity Commission, *Distribution Pricing Principles and Information Disclosure Guidelines*, February 2010, available from the Electricity Authority's website at http://www.ea.govt.nz/our-work/programmes/transmission-work/principles-or-model-approaches-to-distribution-pricing/#guidelines). The distribution pricing principles are also referenced in the Authority's decision-making and economic framework consultation paper, which can be found at: http://www.ea.govt.nz/our-work/consultations/transmission/decision-making-economic-framework-distribution/. For GPBs, this refers to the pricing principles included in the IMs for GDBs and GTBs, respectively. See Commerce Commission, *Input methodologies determination Applicable to Gas Distribution Services Pursuant to Part 4 of the Commerce Act 1986 (the Act),* 22 December 2010; and Commerce Commission, *Input methodologies determination applicable to gas transmission services pursuant to Part 4 of the Commerce Act 1986 (the Act),* 22 December 2010.

79 See Commerce Commission, *Input Methodologies Determination Applicable to Gas Distribution services pursuant to Part 4 of the Commerce Act 1986 (the Act),* 22 December 2010; and Commerce Commission, *Input Methodologies Determination Applicable to Gas Transmission services Pursuant to Part 4 of the Commerce Act 1986 (the Act),* 22 December 2010.

incorporated the EA's pricing principles by reference into our ID Determination for EDBs.[80]

4.10. Suppliers must also provide information on their aggregate target revenue (if applicable) for the disclosure year, and explanations of changes in target revenue and prices. They must also include the components (if applicable) of target revenue and describe how that target revenue will be recovered by consumer group (or consumers for GTBs) and price component.[81] This in turn will make more transparent the reasons for changes in prices over time, and will also allow disclosure to better reflect suppliers' actual price-setting practices.

4.11. In the case of GTBs, we do not require the disclosure of information in pricing methodologies by consumer group, as we understand consumers are not grouped for pricing purposes at gas transmission level.[82]

Suppliers are required to disclose their approach to pricing for non-standard contracts

4.12. We have decided to require disclosure of suppliers' approach to setting prices for non-standard contracts. This recognises that suppliers vary in their use of non-standard contracts, and the criteria they follow to determine whether to use them. We consider that a separate disclosure for non-standard contracts (including whether efficient pricing principles are being followed when setting non-standard prices) is necessary for a complete assessment of pricing efficiency to be made.

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80 See ENA, *Submission on Information Disclosure Requirements for Electricity Distribution Businesses: Draft Determination and Draft Reasons Paper*, 9 March 2012, page 77, paragraphs 25, 86, 163. Powerco, *Submission to the Commerce Commission on the Draft Information Disclosure Determination and Draft Reasons Paper for Electricity Distribution Businesses*, 9 March 2012 paragraph 14, pages 5 and 9. Orion, *Submission on Information Disclosure Requirements for Electricity Distribution Businesses: Draft Determination and Draft Reasons Paper*, 9 March 2012, paragraphs 33-4. The EA's pricing principles are reproduced in Attachment F, and can be found in Electricity Commission, *Distribution Pricing Principles and Information Disclosure Guidelines*, February 2010, available from the Electricity Authority's website at http://www.ea.govt.nz/our-work/programmes/transmission-work/principles-or-model-approaches-to-distribution-pricing/#guidelines). The distribution pricing principles are also referenced in the Authority's decision-making and economic framework consultation paper, which can be found at: http://www.ea.govt.nz/our-work/consultations/transmission/decision-making-economic-framework-distribution/.

81 This in response to ENA which recommended that this clause should only refer to aggregate target revenue as the volatility in quantities year in year will generally be less at aggregate target revenue level. See ENA, *Submission on Information Disclosure Requirements for Electricity Distribution Businesses: Draft Determination and Draft Reasons Paper*, 9 March 2012, page 43, paragraph 170. Powerco also submitted that the requirement to disclose reasons for changes in target revenue between disclosure years (in terms of the two constituent variables, price and quantity) would confuse interested persons, as the relationship to Notional Revenue requires analysing the price and volume components. See Powerco, *Submission to the Commerce Commission on the Draft Information Disclosure Determination and Draft Reasons Paper for Electricity Distribution Businesses*, 9 March 2012, page 28.

82 See Vector Ltd, *Submission on Information Disclosure Technical Consultation*, 3 August 2012, paragraph 188, page 21; and Maui Development Ltd, *Submission to the Commerce Commission on the Draft Information Disclosure Determination and Draft Reasons Paper for Electricity Distribution Businesses*, 9 March 2012, page 7.

Suppliers are required to disclose pricing strategies

4.13. We require suppliers to explain their pricing strategy (if any) within their pricing methodology, for a period of up to five years.[83] To ensure that this requirement is triggered by actual pricing decisions, the pricing strategy provisions apply only to decisions on price-setting made at Board level and recorded in writing.[84] This is consistent with the submitted views of ENA, Powerco and Vector.[85]

4.14. The requirement to disclose pricing strategies provides more information on how prices are likely to change over time—for example, whether projected prices are being arrived at efficiently, and whether suppliers are planning to share the past benefits of efficiency gains with consumers through prices.

4.15. We acknowledge submitters' arguments for a shorter pricing strategy timeframe.[86] However we consider five years is a meaningful and realistic timeframe both for suppliers' planning horizons, and for interested persons' assessments of pricing behaviour. Consumers may also benefit from having more information available to plan investments in response to anticipated prices.

Other disclosures required in pricing methodologies

4.16. We also require suppliers to disclose, within their pricing methodologies:

4.16.1 whether and how they have sought the views of consumers on price and quality, and how their views have been reflected in the calculation of prices set;[87]

4.16.2 for EDBs only, their approach to payments (and credits) to and from distributed generation providers. This is to ensure interested persons understand how these payments affect prices set for all consumers.

4.17. Submitters generally considered that consumer consultation on price and quality is best placed within AMP disclosures.[88] However we consider that the price for

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83 See clause 2.4.4 of the ID Determinations for EDBs, GDBs and GTBs.

84 See the definition of 'pricing strategy' in clauses 1.4.3, and 2.4.4 of the ID Determinations for EDBs, GDBs and GTBs.

85 ENA, *Submission on Information Disclosure Requirements for Electricity Distribution Businesses: Draft Determination and Draft Reasons Paper*, 9 March 2012, page 87; Vector., *Submission to the Commerce Commission on the IDRs for Electricity Distribution Businesses and Gas Pipeline Businesses*, 9 March 2012, pages 31-2; Orion, *Submission on Information Disclosure Requirements for Electricity Distribution Businesses: Draft Determination and Draft Reasons Paper*, 9 March 2012, paragraph 37.

86 ENA, *Submission on Information Disclosure Requirements for Electricity Distribution Businesses: Draft Determination and Draft Reasons Paper*, 9 March 2012, page 87; GasNet, *Submission on Information Disclosure Requirements for Gas Pipelines Businesses - Draft Determination*, 9 March 2012, page 25.

87 See clause 2.4.1(4) of the ID Determinations for EDBs, GDBs and GTBs.

88 GasNet, *Submission on Information Disclosure Requirements for Gas Pipelines Businesses - Draft Determination*, 9 March 2012 page 13 and 25, and paragraph 53. Orion *Submission on Information Disclosure Requirements for Electricity Distribution Businesses: Draft Determination and Draft Reasons Paper*, 9 March 2012 paragraphs 30 and 32; ENA, *Submission on Information Disclosure Requirements for Electricity Distribution Businesses: Draft Determination and Draft Reasons Paper*, 9 March 2012 page 85; PWC*, Submission to the Commerce Commission on Draft Commerce Act (Electricity Distribution Services*

provided services is directly linked to quality expectations at which services are provided, as observed in workably competitive markets. This link is expressed in s 52(a)(1)(b) of the Act. We therefore consider it important in regulated markets for consumers and other interested persons to understand whether and how suppliers determine consumers' quality expectations in the process of setting prices, and whether actual prices reflect those expectations.

4.18. Our requirements to disclose any consumer consultation on prices and in AMPs (see paragraph 5.24) recognise the relationship between decisions on prices and investments. We consider that it is important for disclosure to be made in the context of both AMPs and price-setting. This gives interested persons more complete information on whether suppliers' decisions in relation to prices and investments reflect consumers' views on how trade-offs between price and quality should be made.[89]

4.19. We note that AMPs and pricing methodologies must be disclosed at the same or similar times. Therefore in practice we consider that suppliers could consult consumers in parallel for the purposes of their AMPs and for setting prices.

Requirements for disclosure of policies or methodologies for determining capital contributions

4.20. We have decided to require suppliers to publicly disclose their approach to determining capital contributions, including how they determine when capital contributions apply and how they are calculated. They must also disclose a standard schedule of capital contributions charges (if available) and disclose the degree to which their policy is consistent with all relevant pricing principles.[90] Other disclosures in this category require:

4.20.1 a statement as to whether the person paying a capital contribution can use an independent contractor to undertake some or all of the work covered by the capital contribution

4.20.2 an explanation of the components of the capital contribution, if requested by the person from whom the capital contribution is sought.

4.21. As capital contributions may not be the responsibility of suppliers, these requirements only apply where the supplier seeks, or receives, a capital contribution.[91] Our requirements also reflect that non-consumers may be responsible for paying capital contributions.[92]

Information Disclosure) Determination 2012 made on behalf of 22 Electricity Distribution Businesses, 9 March 2012, page 31 paragraphs 149-150.

[89] Requirement for asset management planning are detailed in Chapter 5.

[90] For the complete disclosure requirement, see clause 2.4.6 of the ID Determinations for EDBs, GDBs and GTBs.

[91] Powerco submitted that the capital contribution process is managed by the electrical contractors. GasNet noted that it does not have a contractual relationship with the customer and deals instead with the energy retailer concerned. See Powerco, *Submission to the Commerce Commission on the Draft*

4.22. Capital contributions may represent a substantial proportion of both a supplier's line charge revenue, and the total cost borne by consumers for the provision of lines or pipeline services. A complete assessment of prices therefore needs to include capital contributions, where applicable. We consider that interested persons need more transparency of these charges to understand how they were arrived at, whether the prices paid for capital contributions are efficient, and whether they reflect trade-offs between price and quality.

4.23. Submitters questioned the requirement to disclose whether independent contractors can be used.[93] We consider that this information is likely to be available in a workably competitive market, and contributes to the information necessary to determine if consumers can make trade-offs between prices and quality of service delivery.[94]

4.24. Orion proposed a minimum threshold level for capital contributions as a percentage of annual regulated revenue, below which the capital contribution requirements would not apply.[95] We consider that it would be difficult to implement in practice. It would also risk denying consumers information they need to understand the effect of capital contributions on prices for lines or pipeline services, and the potential impact of these charges on the efficient outcomes described in Part 2 above.

Requirements for disclosure of policies related to discretionary discounts

4.25. EDBs that are partly or fully owned by consumers may pay a rebate or a discretionary discount to their consumers from profits.[96] These discounts form part of the total price paid by consumers for the provision of electricity lines services and may also provide incentives to suppliers to alter their pricing behaviour. An assessment of entitlements to such discounts therefore forms part of any assessment of prices, and the comparisons of prices paid across consumer groups and over time.

4.26. We have decided that EDBs, where they make or recommend a financial distribution to consumers, must publicly disclose the allocation methodology they used to determine how the distributions were made.

Information Disclosure Determination and Draft Reasons Paper for Electricity Distribution Businesses, 9 March 2012, page 11; and GasNet, *Submission on Information Disclosure Requirements for Gas Pipelines Businesses - Draft Determination*, 9 March 2012, paragraph 58.

92 The ENA also noted that capital contribution charges are often paid by parties other than consumers (such as property developers). See ENA*, Submission on Information Disclosure Requirements for Electricity Distribution Businesses: Draft Determination and Draft Reasons Paper*, 9 March 2012, page 88.

93 For example, ENA stated that was not required for the Part 4 purpose, and this decision is about service delivery not about price. See ENA, *ENA, Submission on Information Disclosure Requirements for Electricity Distribution Businesses: Draft Determination and Draft Reasons Paper*, 9 March 2012, pages 44, 88, and 173; and PWC*, Submission to the Commerce Commission on Draft Commerce Act (Electricity Distribution Services Information Disclosure) Determination 2012 made on behalf of 22 Electricity Distribution Businesses*, 9 March 2012, paragraphs 153-4.

94 For the complete requirement see clause 2.4.6(2) of the ID Determinations for EDBs, GDBs and GTBs.

95 Orion*, Submission on Information Disclosure Requirements for Electricity Distribution Businesses: Draft Determination and Draft Reasons Paper,* 9 March 2012, page 42.

96 This includes (but is not limited to) those EDBs that meet the definition of 'consumer owned' in s 54D of the Act. Consumer-ownership is not currently a characteristic of GPBs.

4.27. To recognise that EDBs may not be (or may be only partially) responsible for these distributions, this requirement applies only where EDBs recommend to a third party how the discounts should be distributed (for example, to a consumer trust).[97]

Disclosure of actual prices

4.28. Prices are the amounts charged to consumers for the provision of electricity lines and gas pipeline services.

4.29. Suppliers must at all times publicly disclose current prices. Disclosure must be detailed enough for consumers to determine the consumer group they belong to, the total price they must pay, and the amount represented by each price component that applies to them. Consistent with our decision for pricing methodologies noted in paragraph 4.11 above, GTBs are not required to disclose prices by consumer group.

4.30. Suppliers must also disclose the number of consumers who pay each price, and the immediately previous price payable. EDBs must also disclose the amount of each price attributable to transmission charges. Suppliers must also inform consumers of price changes.

4.31. For consistency with the ID Determinations for EDBs and GDBs, we have decided to require GTBs to disclose each current price in a manner that enables consumers to determine the prices represented by each price component applicable to them.[98] We consider that this information is as important for interested persons' assessments of GTBs' pricing behaviour, as it is for EDBs and GDBs. We also understand that GTBs already make this information public, so there is no additional disclosure required beyond what is currently available.

Suppliers may disclose price changes using their choice of mass media

4.32. We have implemented PwC's suggestion that suppliers may choose to disclose price changes using online news media if that is more relevant to their consumers.[99] Suppliers select the option that most cost-effectively informs the largest possible number of people that price changes have occurred.[100]

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97 This is consistent with PwC's view in their submission also noted that discretionary discounts are usually approved by owner representatives (e.g. customer trusts etc.), see PWC, *Submission to the Commerce Commission on Draft Commerce Act (Electricity Distribution Services Information Disclosure) Determination 2012 made on behalf of 22 Electricity Distribution Businesses, 9 March 2012, paragraphs 173-75, page 35. See clause 2.4.21 and 2.4.22 of the EDB ID Determination*.

98 See 2.4.16(1)(b) of the GTB ID Determination. This is the same requirement as sub-clause 2.4.16(1)(c) of the ID Determinations for EDBs and GDBs.

99 PWC*, Submission to the Commerce Commission on Draft Commerce Act (Electricity Distribution Services Information Disclosure) Determination 2012 made on behalf of 22 Electricity Distribution Businesses, 9 March 2012*

100 Unison, *Submission on Information Disclosure Requirements for Electricity Distribution Businesses and Gas Pipeline Businesses – Draft Reasons Paper*, 9 March 2012 (paragraph 39) *Unison, Submission on Information Disclosure Requirements for Electricity Distribution Businesses and Gas Pipeline Businesses – Draft Reasons Paper, 9 March 2012*; The Lines Company, *Submission to the Commerce Commission on the Draft Commerce Act (Electricity Distribution Services Information Disclosure) Determination* 2012, 9 March 2012 (page 7) *The Lines Company, Submission to the Commerce Commission on the Draft*

4.33. We note ENA's suggestion that requiring disclosure of price changes in the news section of newspapers is overly restrictive and not necessarily where readers look for public notices.[101] We disagree, and consider that the news section is the best location to bring news of price changes to the greatest number of consumers.

We do not require the disclosure of non-standard prices

4.34. We have decided not to require the public disclosure of non-standard prices, in response to the confidentiality concerns of suppliers.[102] In this case we consider that the benefit of disclosure to interested persons is outweighed by the confidentiality concerns of suppliers.

Views of submitters not incorporated in our decisions

4.35. Several submitters made suggestions which we have decided not to include in our requirements. BBA recommended that EDBs separately report prices and methodology used to determine charges for road lighting assets, citing a lack of sufficient price signals to incentivise efficiency in road lighting assets.[103] While we consider that this is not cost-effective to implement at present, this suggestion highlights the value to consumers of information disclosed at a disaggregated level.

4.36. MEUG suggested alternative drafting for clauses in our determinations dealing with price disclosures to allow consumers to more accurately determine the regulated portion of their bills. In clause 2.4.18 of the Determinations we have required suppliers to disclose their prices in sufficient detail that consumers can determine the consumer group (if applicable)and the prices that apply to them in some detail and (for electricity consumers) the amount of each current price attributable to transmission charges. However we cannot prescribe the way retailers reflect this in their bills, as this is outside the scope of Part 4.[104]

4.37. In relation to pricing methodologies, Meridian suggested that EDBs should state how and when variations within a single pricing category are applied; and that EDBs should share with retailers their view of how prices would translate at tariff level.[105]

Commerce Act (Electricity Distribution Services Information Disclosure) Determination 2012, 9 March 2012; PWC, *Submission to the Commerce Commission on Draft Commerce Act (Electricity Distribution Services Information Disclosure) Determination 2012 made on behalf of 22 Electricity Distribution Businesses*, 9 March 2012 (paragraphs 167-8); ENA, *Submission on Information Disclosure Requirements for Electricity Distribution Businesses: Draft Determination and Draft Reasons Paper*, 9 March 2012 (5th table item on page 89); GasNet, *Submission on Information Disclosure Requirements for Gas Pipelines Businesses - Draft Determination*, 9 March 2012 (paragraph 56).

[101] See ENA, S*ubmission on the Information Disclosure Determination for Electricity Distribution Businesses: Technical Consultation*, 3 August 2012, pages 41-42.

[102] See Powerco, *Submission to the Commerce Commission on the Draft Information Disclosure Determination and Draft Reasons Paper for Electricity Distribution Businesses*, 9 March 2012, pages 12 and 30.

[103] See Bridger Beavis and Associates Ltd (BBA), *Submission on Information Disclosure Requirements for Electricity Distribution Businesses,* 9 March 2012, paragraphs 27 to 33, pages 5-9.

[104] MEUG, *Submission to the Commerce Commission on the Draft Information Disclosure Determination and Draft Reasons Paper for Electricity Distribution Businesses,* 9 March 2012 page 3 paragraphs 10-12.

[105] Meridian*, Submission to the Commerce Commission on the Draft Information Disclosure Determination and Draft Reasons Paper for Electricity Distribution Businesses,* 9 March 2012.

We consider that our requirements for disclosure of pricing schedules, together with pricing methodologies and quantities and revenues billed, are already sufficient for this purpose. For example, our requirements will enable consumers to compare how prices have been set with each actual price. Consumers can then understand how the methodology has translated into actual (average) prices. We are also mindful of the costs to suppliers of disclosing consistent and reliable information of this kind.

Disclosure of prescribed terms and conditions of contracts

4.38. We have decided that suppliers must disclose prescribed terms and conditions of both standard and non-standard contracts.

4.39. For standard contracts, suppliers must disclose the terms and conditions that:

4.39.1 describe the goods or services supplied;

4.39.2 determine the quantity or amount to be supplied;

4.39.3 specify the price, including terms around the timing and security for payment; and

4.39.4 outline the supplier's obligations and responsibilities if supply is interrupted.

4.40. For non-standard contracts, suppliers have the option to disclose, five months (or six months for GPBs) after the end of the disclosure year in which they were entered into, either:

4.40.1 a description of the goods or services to be supplied under the prescribed contract and the quantity or amount of those goods or services

4.40.2 the full terms and conditions listed in paragraph 4.39 above, with the exception of those terms specifying or determining the price of goods or services supplied (consistent with our decision noted in paragraph 4.34 above).

4.41. With respect to non-standard contracts, suppliers must disclose the full terms and conditions of non-standard contracts on request (excluding terms and conditions that specify or determine price).

4.42. If a contract is modified suppliers must publicly disclose this fact and, for standard contracts, must disclose modifications to the prescribed terms and conditions of the modified contract. Modifications to prescribed terms and conditions of non-standard contracts are to be disclosed only on request.[106]

4.43. We note that disclosure of prescribed terms and conditions of contracts is subject to 53C(4) of the Act.[107]

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[106] See clauses 2.4.11 to 2.4.14 of the ID Determinations for EDBs, GDBs and GTBs.

[107] Section 53C(4) of the Act states that a Determination and section 52P may not require a supplier to publicly disclose any provision of an existing contract that was not required to be disclosed prior to the

4.44. The disclosure of contractual terms and conditions can help interested persons understand whether the terms and conditions reflect the quality expectations of consumers, and whether risks are allocated to the party to the contract most able to deal with them (as is observed in workably competitive markets) in light of the prices consumers pay.

4.45. As we have previously expressed in earlier ID consultations we consider that we have a role in ensuring the transparent disclosure of such terms and conditions, as long as such disclosure does not compromise commercial confidentiality in respect of any single consumer.[108] Accordingly we have decided not to require disclosure of ANZSIC codes,[109] and have delayed the disclosure of non-standard contract information until after the end of the disclosure year.[110] We have also restricted disclosure on request to non-standard contracts disclosed after the end of the disclosure year.[111]

4.46. We consider that this approach strikes the appropriate balance between making sufficient information available for interested persons' assessments, and recognising suppliers' confidentiality concerns.[112]

Pricing outcomes

4.47. In our ID requirements, pricing outcomes include revenues and other information that results from actual (set) prices. This includes the quantities which are the basis for billed revenue.

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goods or services being subject to information disclosure regulation] See Commerce Act 1986, Part 4, section 3C(4).

108 The Commission has publicly declared this view in the past. For example, see Commerce Commission, *Regulation of Electricity Lines Businesses: Review of the Information Disclosure Regime - Discussion Paper*, 24 December 2004, paragraph 372, page 81.

109 PWC and other submitters were concerned about the continuation (from the current Part 4A requirements for EDBs) of the requirement to disclose the ANZSIC code of the non-standard consumer, arguing that this is outdated and the information is not necessary to meet the purpose of Part 4. See PWC*, Submission to the Commerce Commission on Draft Commerce Act (Electricity Distribution Services Information Disclosure) Determination 2012 made on behalf of 22 Electricity Distribution Businesses*, 9 March 2012, paragraph 163, page 33*,*; and Powerco, *Submission to the Commerce Commission on the Draft Information Disclosure Determination and Draft Reasons Paper for Electricity Distribution Businesses*, 9 March 2012, page 29. We further note that the EA has decided to require retailers to populate the registry with either an ANZSIC code, or an identifier for each ICP indicating the electricity usage is primarily for residential purposes. For further information on this see: http://www.ea.govt.nz/our-work/consultations/retail/creating-additional-fields-registry/submissions/ (Authority Decision) and http://www.ea.govt.nz/our-work/programmes/priority-projects/part-10-review/part10-implementation/ (ANZSIC code in Authority functional specification (v19A.5)).

110 This decision reflects PWC's view that delay in the disclosure of non-standard contract information until after the year of connection would minimise the risks to consumer confidentiality and would enable EDBs to better meet their confidentiality obligations under non-standard contracts. See PwC*, Submission to the Commerce Commission on Draft Commerce Act (Electricity Distribution Services Information Disclosure) Determination 2012 made on behalf of 22 Electricity Distribution Businesses,* 9 March 2012, paragraphs 159-164, pages 33-34.

111 For the complete requirements see clause 2.4.11 of the ID Determinations for EDBs, GDBs and GTBs.

112 We also note the concerns raised by the ENA in the technical consultation submission. See ENA, S*ubmission on the Information Disclosure Determination for Electricity Distribution Businesses: Technical Consultation*, 3 August 2012, page 15, paragraph 56.

4.48. All suppliers must disclose historical information on line charge revenue received from the setting of prices, and the quantities billed, for each disclosure year. This information is broken down by (where relevant) sub-network consumer group and tariff group, and the quantities (units of electricity or gas delivered to consumers) that have generated that revenue. This information is to be disclosed in Schedule 8.[113]

4.49. Information on quantities and revenues billed allows interested persons to understand whether actual (average) prices paid by various consumer groups reflect posted prices, to compare these prices across consumer groups, and to understand how (for example) target revenue allocated among consumer groups is reflected in practice.

4.50. Based on feedback from technical consultation we have rationalised these templates into a smaller set of tables.[114] We note that non-standard consumer information can now be clearly identified in the new Schedule 8. These changes will enable interested persons to more easily identify consumer types associated with consumer groups, and identify the applicable price components, more easily.

4.51. The final design of Schedule 8 acknowledges that suppliers set prices in different ways, and may use various consumer groups and pricing structures according to the nature of their business. Accordingly the schedule is designed to make compliance easier by allowing each supplier the flexibility to specify the information in ways that accurately and transparently represent their actual pricing structures.

4.52. For GTBs, we have considered a number of ways to require disclosed billed quantity and revenue information in a manner that would be useful for interested persons' assessments of performance in terms of Part 4. One possible way includes quantity and revenue information for individual shippers. However we have not been able to consult sufficiently on this to understand the value of this information to interested persons, or the costs and legality of this disclosure. We have been informed by an industry participant that information by shipper would be useful at a very disaggregated level. Such a level of disaggregation could be considered in future.

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113 Schedules 8a and 8b replace Schedule 13 of the draft ID Determinations originally proposed in our draft ID Determinations published in January 2012.

114 For example, see ENA, S*ubmission on the Information Disclosure Determination for Electricity Distribution Businesses: Technical Consultation*, 3 August 2012, paragraphs 81-85, pages 20-21; and Vector, S*ubmission to the Commerce Commission on Information Disclosure Requirements for Electricity Distribution Businesses and Gas Pipeline Businesses: Technical Consultation,* 3 August 2012, paragraphs 112-119, pages 21-22; MDL, *Submission to the Commerce Commission on the Update paper for technical consultation regarding Information disclosure requirements for Electricity Distribution Businesses and Gas Pipeline Businesses,* 3 August, page 3.

Alignment of our pricing ID requirements with applicable input methodologies and other regulatory provisions

4.53. When setting regulatory requirements (including information disclosure) we are required to apply the relevant Input Methodologies (IMs).[115]

We have applied the input methodology for pricing for GPBs

4.54. The input methodologies (IMs) for GDBs and GTBs include pricing methodologies for information disclosure requirements.[116]

4.55. The IMs for GDBs and GTBs took a principles-based approach.[117] Consistent with these, our ID Determinations require GPBs to demonstrate the extent to which their pricing methodology is consistent with the pricing principles in section 2.5.2 of the IM, and to provide reasons for any inconsistency.

The EDB disclosure requirements are consistent with the EA's pricing principles

4.56. We have decided to require EDBs to apply a principles-based approach to developing pricing methodologies. As there is no IM for EDB pricing methodologies, we have worked closely with the EA to align our ID requirements with the EA's ongoing development of the pricing principles and guidelines.[118] This will make it easier for EDBs to disclose a single pricing methodology to satisfy both our mandatory ID requirements and the EA's voluntary requirements.

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115 Commerce Commission, *Input Methodologies (Electricity Distribution and Gas Pipeline Services) Reasons Paper*, 22 December 2010, paragraphs 2.8.36 and 7.1.2.

116 See Commerce Commission, *Input Methodologies Determination Applicable to Gas Distribution Services Pursuant to Part 4 of the Commerce Act 1986 (the Act)*, Subpart 5 clauses 2.5.1 and 2.5.2; and [Commerce Commission, *Input Methodologies Determination Applicable to Gas Transmission Services Pursuant to Part 4 of the Commerce Act 1986 (the Act)*, Subpart 5 clauses 2.5.1 and 2.5.2]. Section 52T(1)(b) of the Act states that IMs relating to particular goods or services must include pricing methodologies, to the extent applicable to the type of regulation under consideration, except where another industry regulator (such as the EA) has the power to set pricing methodologies in relation to a particular good or service. Given the EA's responsibilities in respect of pricing methodologies for EDBs we only set an IM for pricing methodologies for GPBs.

117 We explained that a principles-based approach to setting pricing methodologies was likely to promote allocative and, to a lesser extent, dynamic efficiency, and was consistent with the Part 4 purpose. For further discussion see Commerce Commission, *Input Methodologies (Electricity Distribution and Gas Pipeline Services) Reasons Paper*, 22 December 2010, paragraphs 7.3.8.

118 In relation to pricing in the electricity distribution sector, the EA has developed voluntary requirements for the content of EDBs' pricing methodologies, including distribution pricing principles and information disclosure guidelines (guidelines). The guidelines specify the information that distributors should provide in relation to their pricing methodologies. The pricing principles and guidelines were published by the Electricity Commission in March 2010 and subsequently adopted by the EA. See Electricity Commission, *Distribution Pricing Principles and Information Disclosure Guidelines*, February 2010, available on the EA's website at http://www.ea.govt.nz/our-work/programmes/transmission-work/principles-or-model-approaches-to-distribution-pricing/#guidelines. The distribution pricing principles are also referenced in the Authority's decision-making and economic framework consultation paper, which can be found at: http://www.ea.govt.nz/our-work/consultations/transmission/decision-making-economic-framework-distribution/.

4.57. A number of submitters were concerned that the pricing requirements in our ID Determinations would duplicate the EA's voluntary requirements.[119] We have decided to incorporate by reference the EA's pricing principles into our ID Determination for EDBs, and to require disclosure against those principles as discussed in paragraphs 4.9 and 4.20 above.[120] We consider that our respective approaches are well aligned; the EA has advised us that if EDBs comply with section 2.4 of the ID Determinations, the EA will take this as disclosure in accordance with the EA's ID Guidelines.[121]

Timing of pricing and related information disclosures

4.58. The following table summarises our decisions on when pricing-related disclosures must be made. Transitional provisions outlined in paragraphs 4.62 to 4.64 below make some exceptions to these standard timings.

Table 5: Standard timings of pricing information disclosures

Requirement	Timing	Applies to	Clause reference
Pricing methodologies	Before the start of each disclosure year	EDBs	2.4.1 - 2.4.5
	Before the start of each pricing year[122]	GDBs and GTBs	2.4.1 - 2.4.5
Capital contributions: policy, standard charges, independent contractor statement	At all times	All	2.4.6(1) to (3)
Capital contributions: explanation of charges	Within 10 working days of receiving a request	All	2.4.7
Discretionary discounts and rebates: allocation methodology	At the time an allocation is made	EDBs	2.4.24/25

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119 For example, see ENA, *Submission on Information Disclosure Requirements for Electricity Distribution Businesses: Draft Determination and Draft Reasons Paper*, 9 March 2012, page 86; and Marlborough Lines, *Submission to the Commerce Commission on the Draft Information Disclosure Determination and Draft Reasons Paper for Electricity Distribution Businesses*, 9 March 2012, page 4.

120 We have reproduced the EA's pricing principles for EDBs in Attachment F, for convenience.

121 Electricity Commission, *Distribution Pricing Principles and Information Disclosure Guidelines*, February 2010, available on the EA's website at http://www.ea.govt.nz/our-work/programmes/transmission-work/principles-or-model-approaches-to-distribution-pricing/#guidelines.

122 This recognises that GDBs and GTBs may have pricing year dates that are not aligned with their disclosure years. See clause 2.4.1 of the ID Determinations for GDBs and GTBs.

Requirement	Timing	Applies to	Clause reference
Actual prices	Current prices: At all times Changes in price: 20 working days prior to a new price being introduced	All	2.4.18 to 2.4.20
Prescribed terms and conditions of contracts (standard contracts)	Within 20 working days (including modifications to existing terms and conditions)	All	2.4.9 to 2.4.11
Prescribed terms and conditions of contracts (non-standard contracts)	Description or full terms: Within 5 months of the end of the disclosure year (EDBs, or 6 months (GPBs). On request: within 20 working days of request (including changes to existing terms and conditions)	All	2.4.12 to 2.4.17
Billed quantities and line charge revenues (Schedule 8)	Within 5 months of the end of each disclosure year	EDBs	2.4.21 and 2.4.22
	Within 6 months of the end of each disclosure year	GDBs and GTBs	2.4.21 and 2.4.22 (GDBs) 2.4.20 (GTBs)

4.59. We have allowed GPBs six months following the end of each disclosure year to prepare and disclose billed quantities and line charge revenues. This allows GPBs to incorporate the results of wash-up calculations for the full disclosure year in their disclosed information.[123] This is consistent with Powerco's submission.[124] We have also provided an option for suppliers to comment in explanatory notes to their annual disclosures on any changes to past year information arising from final wash-ups.

123 Powerco, *Submission to the Commerce Commission on the Draft Information Disclosure Determination and Draft Reasons Paper for Electricity Distribution Businesses,* 9 March 2012, page 30.

124 Powerco, *Submission to the Commerce Commission on the Draft Information Disclosure Determination and Draft Reasons Paper for Electricity Distribution Businesses,* 9 March 2012, item 19, page 30.

Assurance and certification provisions related to pricing disclosures

4.60. We have decided that the disclosure of pricing methodologies and pricing outcomes (line charge revenues and billed quantities) will be subject to director certification (in accordance with Schedules 17 and 18).

4.61. No pricing related information is required to be audited. (We discuss assurance and certification requirements further in chapter 9 below.)

Transitional provisions for pricing and related information

4.62. Transitional provisions will apply to the following pricing information requirements for the 2013 disclosure year:

4.62.1 For GDBs and GTBs, pricing methodologies and actual prices (that would normally be disclosed at or prior to the start of the pricing year[125]) are not required to be publicly disclosed for the first time until five months after the commencement date of the ID Determinations;

4.62.2 For the 2012 disclosure year only, information on billed quantities and line charge revenues), is required to be disclosed at the same time as the annual disclosures for the 2013 disclosure year.

4.62.3 Capital contributions information is not required to be publicly disclosed for the first time until five months after the commencement date of the ID Determinations;

4.62.4 Standard contracts information is not required to be publicly disclosed for the first time until five months after the commencement date of the ID determinations.

4.63. These decisions recognise that suppliers may need some extra time to re-certify these disclosures. ENA suggested that capital contribution policies and standard prescribed contract information should be disclosed within seven months of the ID Determination, so that their disclosure aligns with their proposal to make all disclosures from 31 March 2013.[126] However, we consider that this information has ongoing value for interested persons. Accordingly there is no need to wait for these disclosures to be made with the annual disclosure package.[127] We also note that:

[125] GDBs and GTBs are required to disclose pricing methodologies prior to the start of their pricing years. This recognises that GDBs and GTBs may have different commencement dates for their pricing and disclosure years. See clause 2.4.1 of the ID Determinations for GDBs and GTBs.

[126] ENA, *Submission on Information Disclosure Determination for Electricity Distribution Businesses: Technical Consultation*, 3 August 2012, paragraph 118, page 27.

[127] We further note that disclosure of standard contract prescribed terms and conditions is a continuation of existing requirements for EDBs and GPBs. See Commerce Commission, *Electricity Distribution (Information Disclosure) Requirements 2008*, 31 October 2008, clause 5; and *Gas (Information Disclosure) Regulations 1997*, 7 July 1997, clauses 8-14.

4.63.1 the information required in relation to standard contracts is similar to disclosure requirements under the 2008 requirements for EDBs, and the Gas (Information Disclosure) Regulations 1997 (GIDRs) for GPBs

4.63.2 the capital contribution provisions require disclosure only of any policy and/or standard schedule of charges that currently exists.

4.64. GasNet considered that they were not sufficiently equipped to disclose the extra detail required by the ID requirements.[128] GasNet and Vector, in their technical consultation submissions, considered that transitional provisions should apply to the disclosures of pricing methodologies and prices for the 2012 pricing year.[129] Our decisions across the requirements recognise that the transition to the new requirements is a significant change for GDBs in particular; the transitional provisions described in paragraph 4.62 above provide additional time to disclose information in those areas we consider present initial difficulties. Transitional provisions are detailed in section 2.12 of the ID Determinations. A full summary of transitional provisions appears in chapter 8.

[128] See GasNet, *Submission on Information Disclosure Requirements for Gas Pipelines Businesses – Draft Determination,* paragraph 9, page 3.

[129] These submissions and our ensuing decisions recognise the pricing year for GDBs and GTBs beginning October 1. See GasNet, *Submission on Information Disclosure Requirements for Gas Pipelines Businesses – Draft Determination for Technical Consultation,* page 5; and Vector, *Submission to the Commerce Commission on Information Disclosure Requirements for Electricity Distribution Businesses and Gas Pipeline Businesses: Technical Consultation*, 3 August 2012 page 22, paragraph 123.

5. Information on network management

Table 6: Information on network management: overview

Information on network management description and link to Part 4 purpose	Suppliers must disclose an integrated package of information to inform assessments of whether the network is being managed efficiently, for the long term, to deliver the regulated services. This package of information focuses on the following key questions about historical, current- and future performance: • Are suppliers operating and investing in their assets efficiently? • Are suppliers innovating where appropriate? • Are suppliers providing services at a quality that reflects consumer demands?	
Type of information	**Requirements**	**Reference in Determination**
Key qualitative information		
Asset management plan	AMPs comprised quantitative information (see below), supported by detailed qualitative information. This qualitative information includes discussion of: the network; and systems, policies and processes for maintaining and developing the network; performance against targets; risk management; and the interests of stakeholders.[130]	Attachment A
Key quantitative information		
Historical expenditure by category	A breakdown of historical expenditure by category, and the variance between the high level categories of historical and forecast expenditure for the disclosure year	Schedules 6a, 6b, and 7
Information about the network	Asset register; asset age profile; demand; information on embedded networks, and overhead lines (EDBs only); pipeline data (GPBs only)	EDBs: Schedules 9a to 9e; GPBs: Schedules 9a to 9d
Information on quality	EDBs: information on reliability-interruptions by class, cause, and main equipment involved; fault rate	EDBs: Schedule 10

[130] This is not an exhaustive list of information to be covered in AMPs. Attachment A of the ID Determinations provides a full description of the information AMPs must include.

	GPBs: information on reliability and interruptions; pipeline integrity and customer service	GPBs: Schedules 10a, 10b
Forecast expenditure	Forecast expenditure over a ten year period, with a break down of the forecasts by expenditure category for the first five years (included in the AMP, and disclosures after the end of the disclosure year)	Schedules 11a and 11b
Information supporting asset management plans and expenditure forecasts	EDBs: asset condition; forecast capacity; forecast demand; forecast reliability GDBs: asset condition; forecast utilisation; forecast demand GTBs: asset condition; forecast demand (included in the AMP, and disclosures after the end of the disclosure year)	EDBs: Schedules 12a to 12d GDBs: Schedules 12a to 12c GTBs: Schedules 12a and 12b
Asset management maturity	Asset management maturity assessment tool (AMMAT)	Schedule 13

5.1. This chapter sets out our reasons for requiring the information described in the above table to be publicly disclosed:

5.1.1 Why interested persons need information on network management to assess performance

5.1.2 The reasons for our specific decisions on requirements for information on network management

5.1.3 The timing of required disclosures, and transitional provisions, and

5.1.4 Certification requirements

Why interested persons need information on network management to assess performance

5.2. The ID Determinations require suppliers to disclose a package of information about their network, and how they manage and invest in their network.

5.3. Interested persons need this package of information to assess whether suppliers are operating and investing in their assets efficiently, as observed in workably competitive markets. To assess this key performance question, suppliers also need to answer additional key performance questions:[131]

5.3.1 Are suppliers innovating where appropriate?

5.3.2 Are suppliers providing services at a quality that reflects consumer demands?

5.4. We consider the information requirements in the ID Determinations are sufficient to answer the above questions.

Are suppliers operating and investing in their assets efficiently?

5.5. EDBs and GPBs incur expenditure in order to carry out a range of activities and invest in assets. They do this to achieve intended outcomes, for example supply new locations, meet expected levels of reliability, manage changing load requirements, reduce energy losses, and so on, as represented in Figure 1. To assess whether suppliers are operating and investing in their assets efficiently, it is helpful to consider these four elements of network management:[132]

5.5.1 **Drivers:** what is the reason for this expenditure? A range of factors drives expenditure, including consumer requirements, consumer growth and the location, and condition of the suppliers' assets. These factors may change over time, and may be specific to each business. Some of these factors may be outside management control.[133]

5.5.2 **Expenditure:** what is the supplier's historical, current and planned level of expenditure?

5.5.3 **Activities and assets:** what activities and assets is the supplier spending its money on? How does the supplier decide what activities it should carry out and which assets to invest in?

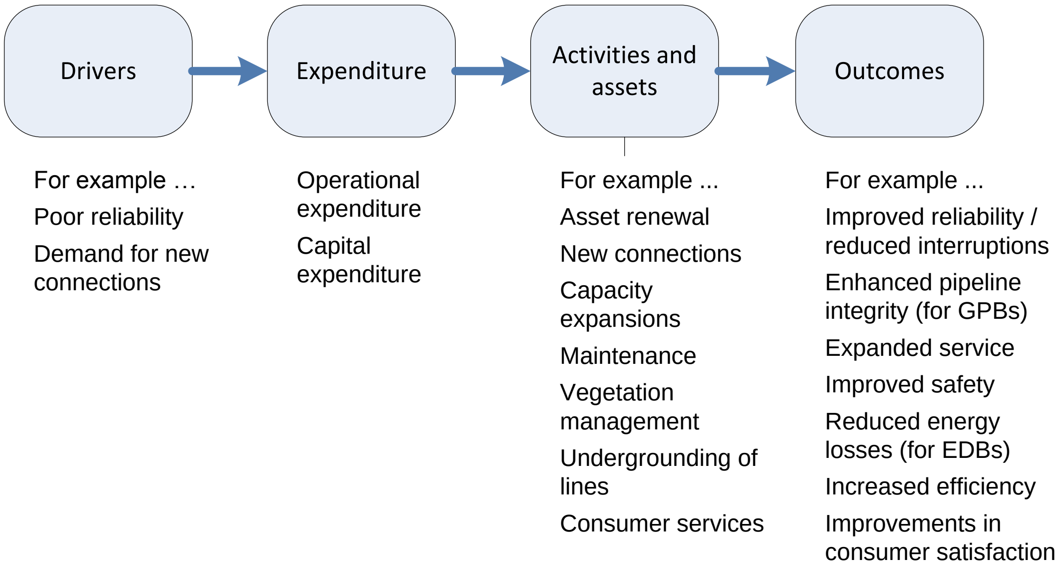
5.5.4 **Planned outcomes:** what is the supplier's intention in spending the money? What are the outcomes the supplier expects or achieves? How does this compare to consumer expectations?

[131] See paragraphs 2.37 to 2.40 in Chapter 2 of this paper.

[132] The questions in paragraph 5.5 are not exhaustive, but are useful in understanding the link between operational and capital expenditure, and the level of service a supplier delivers over the long term.

[133] At least in the short to medium term. Arguably, in the very long term factors such as terrain are within the supplier's control.

Figure 2: Assessing expenditure, activities and assets, and planned outcomes



5.6. To assess whether a supplier is operating and investing efficiently, we consider that interested persons need a suite of information on historical, current and forecast expenditure, the drivers of this expenditure, the assets and activities associated with this expenditure, and the outcome of the expenditure. This information will enable interested persons to look at past trends of expenditure efficiency, current performance (including how this compares to past performance, and to other suppliers), and planned future performance.

5.7. We consider that interested persons need a variety of qualitative and standardised quantitative information to assess network management. Much of the information needed to answer the above questions will be contained in suppliers' AMPs. AMPs provide an integrated package of qualitative and quantitative information, including information on the existing network, policies and processes for managing and developing the network, service levels, planned investments, and risk management. AMPs are therefore an important source of information for assessing suppliers' performance against the Part 4 purpose. For example, AMPs must include information on:[134]

5.7.1 the network and the condition of network assets;

5.7.2 service targets, performance indicators, and an assessment of performance against targets;

5.7.3 lifecycle asset management processes;

5.7.4 network (and non-network) development plans, including information on planned projects, how the supplier has made decisions on planned projects,

134 This is not an exhaustive list of the required content for AMPs. The full requirements are set out in Attachment A of the ID Determinations.

and (for EDBs), strategies and processes used to promote energy efficient network operation;

5.7.5 approaches to risk management;

5.7.6 the interests of stakeholders, and processes for stakeholder communication and participation;

5.7.7 quantitative information on planned investment, including forecast expenditure and supporting information such as demand forecasts, network condition, and forecast reliability (for EDBs).[135]

5.8. In addition, suppliers must disclose historical information on network assets, demand, and network reliability, after the end of each disclosure year.

5.9. AMPs will be an important source of information on the intended outcomes of planned expenditure. Together with the historical information suppliers must disclose after the end of each historic year, this will help interested persons to make judgements on whether these outcomes have been achieved, for example by:

5.9.1 comparing the number and duration of interruptions in a disclosure year against interruptions forecast for that year

5.9.2 comparing volumes and number of connections in a disclosure year to forecast demand for that year.

5.10. The AMP will include standardised quantitative information provided for in the schedules to the ID Determinations.[136] As discussed in chapter 2, the quantitative information in AMPs previously disclosed by EDBs was not in an easily comparable format.[137] The ID Determinations require that key quantitative information in the AMPs, for EDBs and GPBs, is disclosed in standardised tables. We consider this will substantially improve the ability of interested persons to analyse disclosed information to assess whether suppliers are operating and investing efficiently over time.

5.11. Network information must be disaggregated using a standardised hierarchy (see, for example, Figure 3). This will make it easier for interested persons to understand the links between expenditure and the assets used to provide regulated services, to identify changes in the state of the network over time, and to assess the impact of past expenditure on the network. For example, understanding performance risks and investment requirements caused by poor asset condition requires a disaggregation of asset information between asset classes and asset categories, as the condition and expenditure requirements of some network components (eg, power poles) can vary significantly from other components (eg, transformers).

135 The required supporting information varies between EDBs, GDBs, and GTBs (see schedules 12a- 12d of the ID Determinations, as applicable).
136 In particular schedules 6 -12b, 12c, or 12d (for GTBs, GDBs, and EDBs respectively).
137 See paragraph 2.61.

Are suppliers innovating where appropriate?

5.12. To assess whether suppliers are innovating where appropriate, interested persons are likely to require information on expenditure on research and development (R&D) activities, the outcomes of this expenditure and the impact on planned network investment, as well as any evidence of innovation. This may include innovation in the area of energy efficiency, including demand-side management.

5.13. Suppliers must therefore disclose information on historical and forecast R&D expenditure and must also include in their AMPs information on the level of innovation they are engaging in, in particular:[138]

5.13.1 the extent to which they plan to implement innovations that will improve efficiencies within the network

5.13.2 innovations they have made that have deferred the need for asset replacement.

Are suppliers providing services at a quality that reflects consumer demands?

5.14. To answer this question, interested persons need to understand the level of quality being delivered, how this compares to consumers' demands, what the supplier is planning to do about any gaps between the quality being delivered and consumer demands, and how this impacts on planned expenditure.

5.15. The concept of 'quality' covers a potentially wide range of service parameters. In the case of electricity distribution and gas pipeline services, key measures of quality are:

5.15.1 Reliability-to what extent is the supplier able to provide a reliable, uninterrupted service?

5.15.2 (for GPBs) pipeline integrity-to what extent does the network transport gas without any adverse impact on safety? How quickly does the supplier respond to any reported gas leaks?[139]

5.16. To assess whether suppliers are providing services at a quality that reflects consumer demands, interested persons will need information on current, past and forecast quality, and the level of quality consumers are prepared to pay for.

5.17. The information on quality much be sufficiently disaggregated to:

5.17.1 determine the extent to which interruptions are due to factors that may be outside a supplier's control

5.17.2 assess linkages between current quality, and planned expenditure.

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[138] ID Determinations, Attachment A.

[139] Gas pipeline capacity and utilisation are also arguably aspects of 'quality' for GPBs. This category of information is sufficiently important to warrant separate consideration. We discuss capacity and peakflow disclosures for GPBs in chapter 6.

Decisions on requirements for information on network management

5.18. Suppliers must disclose:

5.18.1 AMPs and AMP updates (see paragraphs 5.20 to 5.36);

5.18.2 information on asset management maturity (see paragraphs 5.37 to 5.41);

5.18.3 forecast expenditure, and information supporting asset management plans and forecasts (see paragraphs 5.42 to 5.47);

5.18.4 historic expenditure for the disclosure year, including a comparison of historic expenditure against forecasts (see paragraphs 5.48 to 5.59);

5.18.5 information about the network (see paragraphs 5.60 to 5.66);

5.18.6 information on quality for the disclosure year (see paragraphs 5.67 to 5.74);

5.19. Below, we discuss the reasons for our specific decisions on the above ID requirements.

Asset Management plans and asset management plan updates

5.20. Suppliers must disclose full AMPs at least twice in each regulatory period.[140] AMPs are generally required in year 1 and year 4 of each regulatory period. The Commission may advance or defer the years in which suppliers must disclose a full AMP. This is to adjust the timing of mandatory AMPs in the future, if necessary, to ensure that they are available in sufficient time to inform starting prices, given that: disclosure years for some GPBs do not coincide with the regulatory period; and the regulatory period may vary in future (between four to five years).

5.21. Aligning the timing of AMPs with requirements for information to inform starting price adjustments for non-exempt EDBs will make the Part 4 regulatory regime as a whole more cost-effective. This proposed timing does not have any negative impact on exempt EDBs.

5.22. Notwithstanding the quantitative information that will be required through the schedules to the ID Determinations, we consider disclosure of an AMP is also necessary. AMPs provide information on the quality of suppliers' asset management processes. Poor asset management can impose significant costs on consumers. Recent events, such as the Christchurch earthquake and the Maui pipeline shutdown, have highlighted the potentially significant economic cost when key

[140] Suppliers generally agreed with the reduced frequency of full AMPs. (For example ENA, Submission on Information Disclosure Requirements for Electricity Distribution Businesses: Draft Determination and Draft Reasons Paper, 9 March 2012, paragraph 193; PWC, *Submission to the Commerce Commission on Draft Commerce Act (Electricity Distribution Services Information Disclosure) Determination 2012 made on behalf of 22 Electricity Distribution Businesses*, 9 March 2012, paragraph 182; Powerco, *Submission to the Commerce Commission on the Draft Information Disclosure Determination and Draft Reasons Paper for Electricity Distribution Businesses*, 9 March 2012, paragraph 24.)

infrastructure assets are damaged or fail, and the importance of having appropriate risk management policies in place.

5.23. As we have already discussed, AMPs are an important source of information for assessing suppliers' performance against the Part 4 purpose. AMPs provide information on a range of matters not covered in the schedules to the ID Determinations. This additional information includes, for example, the criteria for network planning, consumer engagement, and the supplier's asset management policies.

5.24. The AMP also provides flexibility for suppliers to tailor the disclosure to their needs, including qualitative information and commentary on aspects of asset management that are specific to them.

5.25. Further, in our IM Reasons paper, we decided not to do ex post reviews of capex under CPPs that might involve a writedown of the RAB as we thought the requirement to disclose AMPs provides a discipline on the prudency of capex.[141] Retaining AMPs is consistent with this decision.

5.26. AMPs are not a new requirement for EDBs—EDBs have been required to prepare and disclose AMPs annually under previous ID requirements, with detailed content requirements, and limited prescriptive requirements for quantitative data.

5.27. GPBs have not previously been required to disclose AMPs. The required GPBs to disclose capacity information and some information on the pipeline(s), but only minimal information concerning age and condition, quality, the risks to the network, and proposed investments. The GIDRs also contained no requirements for GPBs to disclose information about how they engage with consumers on price and service quality expectations.

Content of AMPs

5.28. The requirements for AMPs in the ID Determinations draw on the requirements in the 2008 requirements for EDBs,[142] with amendments to ensure the requirements are consistent with the purpose of ID. For example, AMPs must now include information on:

5.28.1 expenditure on non-network operational expenditure and non-network assets (previously referred to as 'non-system assets')

5.28.2 innovative practices, processes, or programmes, and planned innovations that improve efficiencies within the network

[141] Commerce Commission, *Input Methodologies (Electricity Distribution and Gas Pipeline Services) Reasons Paper,* 22 December 2010, paragraph E4.6–E4.7.

[142] Commerce Commission, *Electricity Information Disclosure Handbook*, 31 March 2004 (as amended 31 October 2008), chapter 4.

5.28.3 strategies or processes that promote the efficient design, operation of and investment in the network, for example through demand side management.[143]

5.29. We expect to rely on information provided in ID including AMPs, in making regulatory decisions. For example, the AMPs may inform decisions on starting price adjustments under the DPP for EDBs and GPBs. This will minimises the regulatory burden on non-exempt EDBs and GPBs.[144]

5.30. The changes we have made received mixed support from submitters. For example, Wellington Electricity submitted that it was not clear why the Commission is seeking to require EDBs to provide substantial additional information in their AMPs. [145] The ENA submitted that in general it supports the proposed modifications to the contents of the AMPs. [146]

Requirements for AMP Updates

5.31. Any supplier that wishes to continue to disclose an AMP annually can do so. However, in years when a full AMP is not mandatory under the ID Determinations, suppliers may choose to disclose an AMP Update. [147]

5.32. AMP updates are intended as a short update to the previously disclosed AMP. They should outline material changes to the AMP. The AMP update is expected to cover the following points, where applicable:[148]

5.32.1 Any major changes to the network development plans disclosed in the last AMP;

5.32.2 Any major changes to lifecycle (maintenance and renewal) plans disclosed in the last AMP;

5.32.3 The reasons for any material changes made since the previous disclosure year to the Report on Forecast Capital Expenditure in schedule 11a and the Report on Forecast Operational Expenditure in schedule 11b;

5.32.4 any changes to the supplier's asset management practices that would affect the report on asset management maturity in schedule 13;

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143 Clause 11.9.3 of the draft EDB ID Determinations; clause 15.9.3 of the draft GDB ID Determinations; and clause 15.10.3 of the draft GTB ID Determinations.

144 See paragraph A10 in Attachment A of this paper. This was supported by the ENA (ENA, *Submission to the Commerce Commission on Draft Commerce Act (Electricity Distribution Determination 2012*, 9 March 2012, page 11).

145 Wellington Electricity Lines Ltd, *Information Disclosure Requirements (IDRs) Draft Reasons Paper* 9 March 2012, page 8.

146 ENA, *Submission to the Commerce Commission on Draft Commerce Act (Electricity Distribution Determination 2012*, 9 March 2012, page 11.

147 The ID Determinations do not require a supplier to disclose an AMP Update if that supplier continues to disclose an AMP in each year (see clause 2.6.3 of each of the draft ID Determinations).

148 See clause 2.6.4 of each of the ID Determinations.

5.32.5 (In the case of GTBs) capacity information

5.33. The AMP update must also include the standardised quantitative information on forecast expenditure, and information supporting expenditure forecasts, described in paragraphs 5.42 to 5.43.

Future compliance reviews of disclosed AMPs

5.34. For a number of years, the Commission has undertaken reviews of EDB AMPs. These reviews have taken what, in essence, is a compliance approach whereby an external consultancy has been asked by us to review each EDB's AMP for compliance with the AMP requirements.

5.35. The most recent review, of the EDB AMPs covering the planning period 1 April 2011 to 30 March 2021, was prepared by Parsons Brinckerhoff NZ (Parsons Brinckerhoff Review).[149]

5.36. We may continue similar compliance reviews in future but, for EDBs in particular, these may be less frequent and targeted only on areas where specific compliance issues have been identified. They could also include greater use of site visits which we used for the 2011 AMP reviews.

Information on asset management maturity

5.37. Suppliers must undertake and disclose a self-assessment of the maturity of their practices in relation to asset management using the asset management maturity assessment tool (AMMAT).[150] AMMAT disclosures form part of full AMPs, and so are required only twice in any regulatory period.[151]

5.38. We do not consider that it is appropriate or necessary for us to specify comprehensive standards on asset management as each supplier should adopt whatever standard or approach it considers is most appropriate for it. However, given the importance of asset management to the quality and the cost of services that consumers receive over time, interested persons should understand whether suppliers are reviewing their asset management practices, and whether this has identified areas for asset management improvements.

5.39. The AMMAT seeks to identify the maturity of current asset management practices suppliers use, relative to an objective standard based on good asset management practices such as that described in PAS 55.[152]

5.40. Disclosure of the AMMAT will allow interested persons to understand how well suppliers are managing their assets against an objective standard. Disclosure of the AMMAT results does not require a regulated supplier to lift its asset management

149 See Parsons Brinckerhoff New Zealand, *2011 Asset Management Plan Reviews*, 26 August 2011; and is on the Commission's website at www.comcom.govt.nz/review-of-asset-management-plans/.

150 This disclosure must comply with the requirements of schedule 13.

151 Attachment H provides additional detail on the AMMAT requirements.

152 PAS 55 is a standard of good asset management that was developed by the Institute of Asset Management (UK), and can be purchased from its website at www.theiam.org/.

capabilities to a higher level of maturity, but it makes the decision to settle for a lower standard a more conscious and transparent one.

5.41. Completing the AMMAT requires the supplier to identify references to its own documents that support its assessment of its maturity rating. This allows the possibility that we could commission an audit by a qualified independent person of the responses in the AMMAT disclosures.

Forecast expenditure, and information supporting asset management plans and forecasts

5.42. Forecasts of operational and capital expenditure are a key element of AMPs and AMP updates. These forecasts must:

5.42.1 be in a standardised format, in accordance with Schedules 11a and 11b of the ID Determinations

5.42.2 use standardised expenditure categories.[153]

5.43. In addition, suppliers must disclose information supporting their asset management planning and expenditure forecasts—that is information on the factors are that expected to drive changes in future expenditure. Specifically suppliers must disclose the following standardised reports:[154]

5.43.1 Asset condition[155]

5.43.2 Forecast demand

5.43.3 Forecast utilisation(GDBs only)

5.43.4 Forecast capacity (EDBs only)

5.43.5 Forecast reliability (EDBs only).

5.44. Suppliers must incorporate the above information in the AMP, and separately redisclose those reports, together with historical financial and non-financial information, after the end of each disclosure year. In addition, when disclosing historic financial information suppliers must disclose a comparison of expenditure for the disclosure against the previously disclosed forecast for that year, and provide explanatory comment on any variances.

5.45. This information will enable interested persons to form a view on the reasonableness of forecast expenditure. Together with the qualitative information provided in full AMPs, the information in paragraphs 5.42 and 5.43 will also enable interested persons to understand the link between planned expenditure and the expected outcomes from that expenditure (eg, improved asset condition, reliability).

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153 Forecast expenditure must be disclosed using the same expenditure categories as historic financial information, see paragraphs 5.48 to 5.59 below, and attachment G.

154 Schedules 12a to 12d as applicable.

155 To reduce compliance costs, suppliers may disclose estimates of asset condition, tagged with an assessment of their accuracy.

5.46. Disclosing this information in a standardised format will ensure that quantitative data on suppliers' network planning is available to interested persons in a readily accessible format. This will make it easier for interested persons to understand the basis for planned expenditure, to identify changes in planned investment and the reasons for those changes over time. Over time, comparisons of forecasts to actual expenditure will provide information on the reliability of expenditure forecasts, and the reasons for any variances.

5.47. Including forecast information with the end of year disclosures of historical information will provide interested persons with an integrated package of information on current and planned performance.

Historical expenditure for the disclosure year, by category

5.48. As we discussed above, expenditure is a key consideration in assessing whether suppliers are operating and investing in their assets efficiently. In particular, this assessment requires that expenditure is sufficiently disaggregated to identify the link between expenditure, and the factors that drive expenditure (see paragraphs 5.5 to 5.6).

5.49. Suppliers must therefore disclose information on historic operational and capital expenditure on a disaggregated basis, using a standardised set of expenditure categories (see Table 7 and Table 8 on page 88 below).[156] These categories also apply to expenditure forecasts, to allow for a direct comparison between historic expenditure for a financial year, and the expenditure forecast previously disclosed for that year.

5.50. Standardised expenditure categories, that are linked to drivers of expenditure, have the added benefit of allowing interested persons to compare expenditure over time, to identify trends, and between suppliers.[157]

5.51. In determining appropriate expenditure categories for ID, we have balanced the relevance of expenditure categories to interested persons against practical considerations, including the desirability of a cost-effective Part 4 regulatory regime.

5.52. For information on expenditure to inform interested persons, it must be based on categories that:

5.52.1 have a clear relationship to a driver or outcome of expenditure, which is also covered by the ID requirements

[156] Attachment G explains the reasons for our detailed decisions on expenditure categories.

[157] We note that care is needed in comparing performance, including in relation to expenditure, across different suppliers. Such comparisons must take account of the specific characteristics of individual businesses. By requiring financial and non-financial information that is sufficiently disaggregated to identify the links between network assets, expenditure drivers, and expenditure, the information required under the ID Determinations will enable interested persons to compare performance across suppliers on a more informed basis than was possible under previous arrangements.

5.52.2 are reasonably likely to provide interested persons with an understanding of relationships between expenditure and the disclosed drivers (or outcomes of expenditure).[158]

5.53. For information on expenditure to be cost-effective, the expenditure categories should:

5.53.1 align with existing business practice where possible, to reduce the compliance costs incurred by suppliers needing to modify financial information systems. To achieve this, we discussed the expenditure categories with the Technical Reference Group, to ensure that the categories are consistent with existing business practice[159]

5.53.2 be sufficiently consistent with the expenditure categories in the input methodologies for customised price-quality paths (CPP IMs) to enable suppliers to use information disclosed under our ID requirements when applying for a CPP.

5.54. ENA and Wellington Electricity raised concerns that the expenditure categories used in ID should be the same as those in the CPP IM. [160] The expenditure categories either match directly, or can be aggregated to match, the categories in the CPP IM (for EDBs the categories in the 2008 requirements). We therefore consider the categories are sufficiently consistent with the CPP requirements for suppliers to use information disclosed under the ID Determinations in CPP applications (together with historical time series information based on previous disclosure requirements, for EDBs).[161]

5.55. The expenditure categories in the ID Determinations include high level categories for operational and capital expenditure. Suppliers must further disaggregate capital expenditure into more detailed sub-categories. Table 7 and Table 8 show how the high level capital and operational expenditure categories (respectively) match the

158 We provide examples of the linkages between the expenditure categories in the ID Determinations and drivers of expenditure in paragraph 5.64.

159 We discussed this topic in Technical Reference Group meetings on 31 October and 1 November 2011, and again on 30 April and 1 May 2012 (Commerce Commission, *Information Disclosure Technical Reference Group Meeting (31 October to 1 November 2011),* available at http://www.comcom.govt.nz/assets/Electricity/Information-Disclosure/Part-4-Review/Minutes-ID-Technical-Reference-Group-Meeting-31-October-2011.pdf, and attachment D).

160 ENA, *Submission on Information Disclosure Requirements for Electricity Distribution Businesses: Draft Determination and Draft Reasons Paper*, 9 March 2012, paragraphs 83, 134–137; Wellington Electricity Lines, *Information Disclosure Requirements (IDR) - Draft Reasons Paper*, 9 March 2012, page 6, paragraph 4.4; ENA, *Submission on Information Disclosure Determination for Electricity Distribution Businesses: Technical Consultation from the Electricity Networks Association*, 3 August 2012, paragraph 34.

161 We acknowledge that there are some differences between the ID Determinations and the CPP IM, specifically some categories are named differently, and some definitions differ. However, we consider the ID requirements are sufficiently consistent with the CPP IM for the disclosed information to meet the purpose of the CPP IM. We intend to take a pragmatic approach to CPP applications, allowing for these differences. We expect to amend the CPP IM in due course, to provide for better alignment between ID and the CPP.

categories provided for in the CPP IM. Attachment G discusses the expenditure categories, and in particular sub-categories, in more detail.

Table 7: High level capital expenditure categories for EDBs, GDBs and GTBs

ID Determinations (EDBs, GDBs, GTBs)	CPP IMs
Consumer connection	Customer connection
System growth	System growth
Asset replacement and renewal	Asset replacement and renewal
Asset relocations	Asset relocations
Quality of supply	Reliability, safety and environment
Legislative and regulatory	
Other reliability, safety and environment	
Non-network assets	Non-system fixed assets

Table 8: High level operational expenditure categories for EDBs, GDBs and GTBs

<table>
<tr><th>ID Determination for EDBs</th><th>ID Determination for GDBs</th><th>ID Determination for GTBs</th><th>CPP IM</th></tr>
<tr><td>Service interruptions and emergencies</td><td>Service interruptions, incidents and emergencies</td><td>Service interruptions, incidents and emergencies</td><td>Fault and emergency maintenance</td></tr>
<tr><td>Routine and corrective maintenance and inspection</td><td rowspan="2">Routine and corrective maintenance and inspection</td><td>Routine and corrective maintenance and inspection</td><td rowspan="2">Routine and preventative maintenance</td></tr>
<tr><td>Vegetation management</td><td>Land management and associated activity</td></tr>
<tr><td>Asset replacement and renewal</td><td>Asset replacement and renewal</td><td>Asset replacement and renewal</td><td>Refurbishment and renewal maintenance</td></tr>
<tr><td>Business support</td><td>Business support</td><td>Business support</td><td>General management, administration and overheads</td></tr>
<tr><td rowspan="3">System operations and network support</td><td rowspan="3">System operations and network support</td><td>System operations</td><td rowspan="3">System management and operations</td></tr>
<tr><td>Network support</td></tr>
<tr><td>Compressor fuel</td></tr>
<tr><td>—</td><td>—</td><td>—</td><td>Other</td></tr>
</table>

5.56. In addition to the expenditure categories in Table 7 and Table 8 suppliers must provide expenditure information on breakout categories of expenditure. Breakout categories highlight expenditure on activities that are included in other expenditure categories, but are of particular interest in assessing suppliers' performance.

5.57. For example, EDBs must provide breakout expenditure information on energy efficiency and demand side management, reduction of energy losses.[162] This will provide increased transparency on energy efficiency and related matters, across EDBs and over time. (This is consistent with our obligation under s 54Q of the Act,

[162] Vector, *Submission to the Commerce Commission on the IDRs for Electricity Distribution Businesses and Gas Pipeline Businesses*, 9 March 2012, paragraphs 15–17.

which requires us to promote incentives, and avoid imposing disincentives, for EDBs to invest in energy efficiency and demand side management, and to reduce energy losses.)

5.58. We have taken the opportunity to tighten the definitions to reduce perceived ambiguity, and in some cases have added examples to improve clarity. This is to ensure that suppliers allocate expenditure to the different categories consistently, to aid comparisons over time and across suppliers.

5.59. We have adopted suggestions from submitters and the Technical Reference Group, where possible, to ensure the expenditure categories and supporting definitions are aligned with business practice. For example, we have adopted improvements proposed by the ENA to the definitions supporting the expenditure categories.

Information about the network

5.60. The ID Determinations require suppliers to disclose information about their networks, in a standardised tabular format, after the end of each disclosure year. This information includes:

5.60.1 information on the network assets used to provide regulated services (asset register), provided using a standardised hierarchy[163]

5.60.2 information on the age of the assets[164]

5.60.3 information on the overhead lines (for EDBs) and on pipelines (for GPBs) that make up the network [165]

5.60.4 information on demand[166]

5.60.5 information on embedded networks (for EDBs only).[167]

5.61. To reduce compliance costs, suppliers may disclose estimated values for information on the asset register and asset age profile, tagged with an assessment of their accuracy.

5.62. The condition, suitability and performance of a supplier's assets, and the way each supplier manages and invests in its assets, are critical determinants of the price, cost and quality of services that consumers receive from regulated suppliers.

5.63. In addition, interested persons need information about the network in order to assess the reasonableness of suppliers' expenditure.[168] Network performance can be affected by a number of factors, including consumer requirements, consumer growth and the nature and condition of the suppliers' assets. Some of these factors are

[163] Schedule 9a.
[164] Schedule 9b.
[165] Schedule 9c.
[166] Schedules 9, for EDBs, and 9d (for GPBs).
[167] Schedules 9d, for EDBs.
[168] See paragraphs 5.6 to 5.7.

outside management control and change over time. Sufficient and consistent information of this type is needed to appropriately and fairly assess each supplier's performance, and to assess whether the purpose of Part 4 is being met.

5.64. The network information includes information on key factors that drive the need for expenditure. Interested persons can use this information to help to assess expenditure, based on the expenditure categories discussed above. For example:

5.64.1 the condition of network assets influences the need for asset replacement and renewal;[169]

5.64.2 demand (volumes carried, maximum system demand for EDBs, peak loads for GPBs) creates the need for expenditure on system growth[170]

5.64.3 the number of connections demanded influences expenditure on consumer connection[171]

5.64.4 the location of lines and pipelines, including the terrain, affects the costs of building, maintaining or replacing assets[172]

5.64.5 for EDBs, the extent of overhead lines near the coast, or near geothermal areas, may affect the level of expenditure on maintenance, and on asset replacement and renewal[173]

5.64.6 similarly, for EDBs, the extent of overhead lines requiring vegetation management is likely to impact on the level of expenditure on vegetation management. [174]

5.65. Information on the network should be based, wherever possible, on a consistent hierarchy. Figure 3 illustrates the standardised hierarchy we have applied to information about the network.[175]

169 Schedule 9b requires information on the asset age profile.

170 Schedule 9d (for GPBs) and 9e (for EDBs) requires information on demand.

171 Schedule 9d (for GPBs) and 9e (for EDBs) requires information on connections.

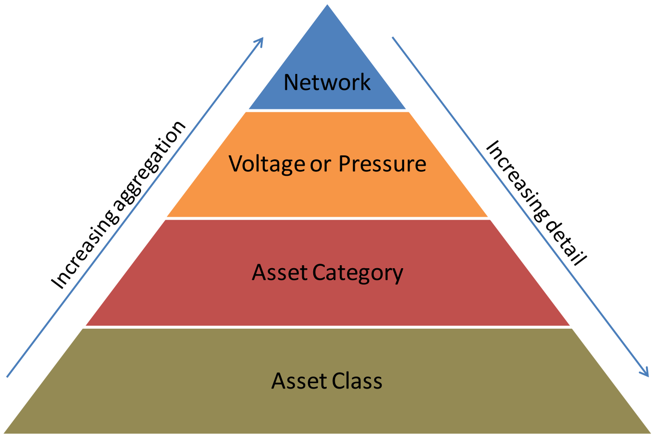
172 Schedule 9c requires information, location and terrain.

173 For EDBs, Schedule 9c (the report on overhead lines) requires information on these factors.

174 Information on overhead circuit requiring vegetation management is required in Schedule 9c (the report on overhead lines).

175 The voltage / pressure component of the hierarchy applies to distribution businesses only as these businesses have a broad range of voltages and pressures.

Figure 3: Hierarchy for information on the network



5.66. The ID Determinations require suppliers to disaggregate information about the network into voltage or pressure categories and then asset categories and asset classes. This will enable interested persons to compare information across networks, expenditure drivers, expenditure, and quality outcomes.

Information on quality for the disclosure year

5.67. EDBs must provide information on reliability (interruptions, and SAIDI and SAIFI) summarised by:[176]

5.67.1 class of interruption

5.67.2 cause of the interruption

5.67.3 main equipment involved.

5.68. GPBs must disclose information on both reliability and pipeline integrity.

5.69. The ID requirements in relation to quality are consistent with DPP requirements:

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176 We have adopted suggestions of submitters on this point. In particular ENA submitted that faults on the network could best be understood by requiring EDBs to categorise faults by a standard set of causes (ENA, *Submission on Information Disclosure Requirements for Electricity Distribution Businesses: Draft Determination and Draft Reasons Paper*, 9 March 2012, paragraphs 274–275).
A number of submitters considered that a summary of information on reliability is sufficient, and that more detailed information on interruptions is not required to meet the purpose of ID (eg, Powerco, *Submission to the Commerce Commission on the Draft Information Disclosure Determination and Draft Reasons Paper for Electricity Distribution Businesses*, 9 March 2012, paragraphs 22–23; ENA, *Submission on Information Disclosure Requirements for Electricity Distribution Businesses: Draft Determination and Draft Reasons Paper*, 9 March 2012, paragraphs 274–275; Vector, *Submission to the Commerce Commission on the IDRs for Electricity Distribution Businesses and Gas Pipeline Businesses*, 9 March 2012, paragraph 127(n)–(o); PowerNet, *Submission to the Commerce Commission on the Draft Information Disclosure Determination and Draft Reasons Paper for Electricity Distribution Businesses*, 9 March 2012, paragraphs 4.3, 5.11-5.13).

5.69.1 Non-exempt EDBs are required to disclose their DPP 'quality path reliability limit', and all EDBs are required to disclose both forecast and actual SAIDI and SAIFI assessed values.

5.69.2 While we have not yet made decisions on the initial DPP for GPBs, the reliability metrics in the ID Determinations are consistent with those we have consulted on previously for the DPP.[177] We expect that the quality information included in the ID Determinations will be sufficient for interested persons to understand how quality compares to the quality path required under the initial DPP for GPBs.

5.70. As we discussed above, interested persons need information on quality to understand whether suppliers are providing services at a quality that reflects consumer demands (see paragraph 5.16), in particular information on:

5.70.1 current, past, and forecast quality

5.70.2 the level of quality consumers are prepared to pay for.

5.71. Suppliers must disclose information on how they engage with consumers on price and service quality expectations as part of their pricing methodologies.[178] As part of their AMPs, suppliers must also disclose information on planned service levels, and on how they have accommodated the interests of consumers (and other stakeholders) in asset management practices. EDBs must also provide quantitative forecasts of reliability (SAIDI and SAIFI) over a five year period.[179]

5.72. These disclosures will provide information on the level of quality consumers are prepared to pay for, and the level of quality suppliers plan to provide. However, in order to assess whether suppliers are actually providing services at a quality that reflects these expectations, interested persons need information on the level of quality delivered in each disclosure year.

5.73. In particular, to be useful to interested persons, information on the level of quality provided should be disaggregated by cause, and by the main equipment involved. This will enable interested persons to better assess interruptions, the drivers and causes of those interruptions and the corresponding need for investment.

5.74. In the case of GPBs, interruptions to supply are infrequent. This makes interruption metrics a less effective indicator of network performance than for EDBs. As a result, GPBs must take a broader approach to measuring quality—GPBs are required to disclose information on interruptions and reliability, compressor availability, and pipeline integrity and (for GDBs) customer service (response to emergency calls).[180] These quality disclosures for GPBs are largely based on the quality performance

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177 Commerce Commission, *Discussion Paper: Initial Default Price-Quality Path for Gas Pipeline Businesses*, April 2011, pages 35–43.

178 See chapter 4, paragraphs 4.16 to 4.18.

179 ID Determination for EDBs, schedule 12d.

180 ID Determinations for GDBs and GTBs, schedules 10 and 10a.

compliance requirements that applied to Powerco and Vector in the 2008 Commerce Commission Authorisations.[181]

Timing of disclosures for network management information

5.75. Table 9 shows when suppliers must disclose the different types of information discussed in this chapter.

Table 9: Timings of information disclosures: information on network management

<table>
<tr><th>Disclosure requirement</th><th>Timing of disclosures</th><th>Reference in determinations</th></tr>
<tr><td>Asset management plans and AMMATs</td><td>Before the start of the disclosure year, in year 1 and the penultimate year of the DPP regulatory period.</td><td>Attachment A, Schedule 13</td></tr>
<tr><td>Forecast expenditure; and information supporting asset management planning and forecasts</td><td>Annually, before the start of the disclosure year</td><td>Schedules 11a, 11b, 12a, 12b, 12c, 12d (as applicable)</td></tr>
<tr><td>Historical expenditure by category, and comparison to forecasts</td><td rowspan="3">EDBs: annually, 5 months after the end of a disclosure year

GPBs: annually, 6 months after the end of a disclosure year</td><td>Schedules 6a, 6b, and 7</td></tr>
<tr><td>Information about the network</td><td>Schedules 9a, 9b, 9c, 9d, 9e (as applicable)</td></tr>
<tr><td>Information on quality</td><td>EDBs: Schedule 10
GPBs: 10a and 10b</td></tr>
</table>

5.76. EDBs and GPBs must first disclose AMPs consistent with the new ID requirements for the 10 year period commencing with the 2014 disclosure year, by:

5.76.1 31 March 2013, for EDBs

5.76.2 30 September 2013, for Vector, GasNet and Powerco

5.76.3 31 December 2013, for MDL.

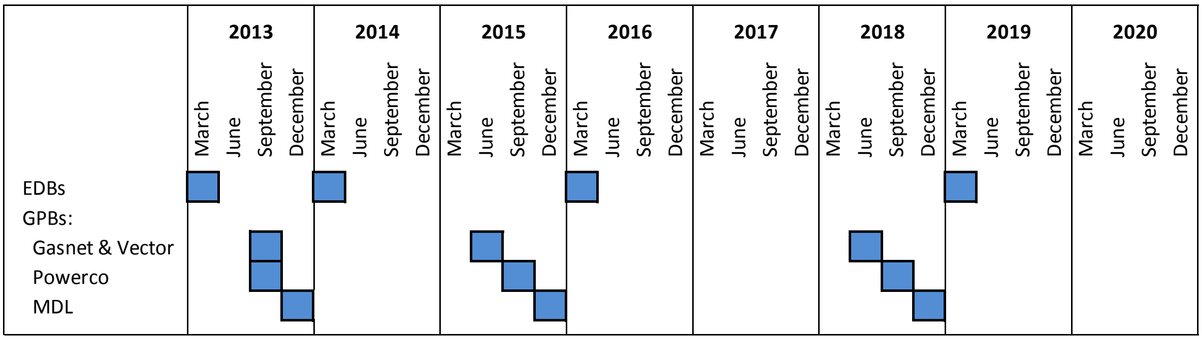
5.77. Vector submitted that the requirements should be staggered to allow gas and electricity to disclose AMPs in alternate years to each other. This is a practical

[181] Re Vector Limited [2008] NZCC 656; Re Powerco Limited [2008] NZCC 656.

matter, as the same Vector staff prepare AMPs for both the electricity distribution and gas pipelines sides of the business.[182]

5.78. We have sought to accommodate Vector's submission. In 2013 Vector will be required to prepare AMPs for both its electricity and gas pipelines businesses. We have extended the timeframe for Vector to disclose AMPs for its gas pipelines businesses until 30 September 2013. This allows six months between disclosure of Vector's electricity AMP and its gas AMPs. In subsequent years, full AMPs for EDBs and GPBs will be required in different years. Figure 4 provides an indication of when AMPs will be required.

Figure 4: Timing of AMPs—2013 to 2020



Assurance and certification of network management information

5.79. Disaggregated historical financial information for each disclosure year must be accompanied by an assurance report from an auditor.

5.80. The remaining information on network management must be certified, but does not require audit assurance, that is:[183]

5.80.1 AMPs and AMP updates

5.80.2 forecast expenditure

5.80.3 information supporting asset management plans and expenditure forecasts

5.80.4 information about the network

5.80.5 information on quality

5.80.6 AMMATs.

[182] Vector, *Submission to the Commerce Commission on the IDRs for EDBs and GPBs*, 9 March 2012, page 35.

[183] A number of submissions raised concerns about the cost-effectiveness of requiring assurance reports for non-financial information. In light of the concerns raised by submitters we have limited the scope of assurance reports to historic financial information only. We discuss our decisions on assurance and certification requirements further in chapter 9 of this paper.

Transitional provisions for network management information

5.81. The ID Determinations allow GasNet and MDL to provide a transitional form of AMP during the first-five year DPP regulatory period, or until such time as their AMP conforms to the full requirements. This recognises that GasNet and MDL have not previously been required to disclose AMPs, and so will need time to build up the capability, systems and process to produce an AMP that fully complies with the requirements in Attachment A of the ID Determinations.[184]

5.82. During this transition period, GasNet and MDL must disclose an annual AMP that:

5.82.1 meets a set of minimum requirements

5.82.2 incorporates the forecast information in schedules 11a to 12c (for GasNet) and 11a to 12b (for MDL)

5.82.3 includes the analysis (or reference to the analysis) of available capacity required in Attachment A of the ID Determinations (for MDL)

5.82.4 identifies where the company considers the plan does not yet conform to the full AMP requirements in Attachment A of the ID Determinations

5.82.5 sets out the actions the GPB is taking to ensure it will conform before the end of the regulatory period.

5.83. The above transitional provisions do not apply to Vector and Powerco. Although these suppliers have not previously been required to prepare AMPs for their gas businesses, they have considerable experience developing AMPs for their electricity businesses. We therefore consider that Vector and Powerco should already have sufficient capability to comply with the requirements for full AMPs.

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[184] GasNet, *Submission on Information Disclosure Requirements for Gas Pipelines Businesses - Draft Determinatio*n, 9 March 2012 (paragraph 63, and 83-86).

6. Information on peak flows and pipeline capacity for GPBs

Table 10: Information on peak flows and pipeline capacity: overview

Pipeline capacity information: description and link to Part 4 purpose	Interested persons need information on pipeline capacity, and how it is allocated, to assess whether GPBs have appropriate incentives to invest, and whether they are providing the service at a quality that meets consumer demands.	
Category of information	**Requirements**	**Reference in Determination**
Pipeline capacity and utilisation (GDBs)	Must be included in the AMP, including information on anticipated constraints	Attachment A
Quantitative information on pressure, capacity, forecast utilisation (GDBs)	Must be disclosed in standardised tables, as part of the AMP / AMP update. Must be subsequently disclosed 6 months after the end of the disclosure year	Attachment A, Schedule 12b
Peak flow information (GTBs)	Peak flow information the year ending September must be disclosed annually in November	Section 2.5
Capacity allocation methodologies (GTBs)	Must be disclosed annually within 6 months after the end of the disclosure year	Section 2.5
Transmission system capacity assessment (GTBs)	Must be disclosed annually, before the start of the disclosure year, as part of the AMP or AMP update	Attachment A

6.1. In addition to the information on network management discussed above, GTBs must provide specific information on peak flows and pipeline capacity.

Why interested persons need information on peak flows and pipeline capacity to assess performance

6.2. The capacity of gas transmission pipelines is a concern for a number of interested persons, including (but not limited to) existing and potential consumers, and investors in businesses that rely on gas transmission services. Questions on transmission capacity notably arose in 2009 when some shipper requests for reserved capacity at delivery points on the transmission system north of Rotowaru were unable to be accepted. At the time a lack of clarity was observed over the fundamental reasons for the requests being turned down, including whether they were due to the nature of contractual arrangements, limitations concerning the physical capacity of the pipeline, or processes and incentives for reallocating unused capacity.

6.3. We have identified four areas where we consider there is currently insufficient information about gas pipeline capacity for interested persons to assess whether the Part 4 purpose is being met. These are:

6.3.1 whether current physical capacity is adequate to address the current and future needs of consumers

6.3.2 whether current capacity allocation methodologies result in efficient outcomes

6.3.3 whether the planned investment is adequate to meet consumer needs (given any physical capacity constraints)

6.3.4 whether, and if so, how, any of the above factors is impacting upon the quality of service provided to existing contracted customers.

6.4. While these concerns relate to all GPBs, they are particularly significant for gas transmission pipelines. An inability to deliver gas can have wide implications for businesses, and for the wider economy, as was evidenced by the impact of the Maui pipeline outage in October 2011.

6.5. Interested persons wishing to form a judgement on whether physical pipeline capacity is adequate to address current and future needs require information on peak demand and available capacity.

6.6. Information is also required to assist interested persons to assess whether the ways GTBs allocate capacity result in an efficient allocation of that capacity.

6.7. We anticipate that interested persons seeking to assess the efficiency of planned investment would turn to the information in the AMP. Because GTB services are provided to a small number of large individual customers, demand/supply forecasts are critical and an interested person needs to be able to understand how the planned investments relate to expectations concerning future transmission opportunities. This is not straightforward since, as noted by the Gas Industry Company (GIC), the fragmented nature of the New Zealand gas market supply chain and the diversity in size and type of natural gas consumers mean that no single entity has an overview of the supply/demand outlook for the industry as a whole.[185]

6.8. GIC, in response to industry concerns about the possible need for new transmission pipeline investment in the Auckland region, has initiated a supply/demand outlook project that it considers might be transferred to a government department or agency to maintain and update.

185 GIC, *Request for Expressions of Interest: Gas supply and demand outlook*, November 2011, page 1. Available from www.gasindustry.co.nz/work-programme/gas-transmission-investment-programme?tab=2134.

6.9. GTBs must describe in their AMPs the extent to which the disclosed network development plans meet the loads anticipated in demand forecasts prepared by bodies such as the GIC or the Ministry of Business, Innovation and Employment.[186] This will help interested persons understand how each of the GTB's planned investments supports any such forecasts.

6.10. In their AMPs, GTBs must also discuss the extent to which transmission constraints are impacting upon the quality of service provided to existing consumers.

Decisions on requirements for information peak flows and pipeline capacity

6.11. GDBs must disclose:

6.11.1 information on pipeline capacity and utilisation in the AMP, including information on anticipated constraints

6.11.2 quantitative information on pressure, capacity and forecast utilisation, for pipelines that are forecast to be heavily utilised over the next five years.[187] This must be disclosed in AMPs and AMP updates, and forms part of the information supporting asset management plans and forecasts.

6.12. GTBs must disclose:

6.12.1 peak flow information for each September year, to be disclosed annually in November (this allows a month after the end of the September flow year) [188]

6.12.2 capacity allocation methodologies and information on capacity reservations, to be disclosed annually within six months after the end of the disclosure year

6.12.3 a transmission system capacity assessment, including an analysis of available capacity at each offtake point, as part of AMPs and AMP updates. MDL must also include this information in its transitional AMPs, if it prepares transitional AMPs, If they wish, GTBs may publish the analysis of available capacity before disclosing their AMPs, and refer to this separate publication in the AMP (or AMP update, or transitional AMP).

6.13. We have developed these requirements to align the information as much as possible with existing business practices, while ensuring that disclosed information is used and useful for the suppliers themselves and interested persons. In particular, we have adopted suggestions in submissions that:

6.13.1 information on future capacity is related to AMP disclosures, and the matter of whether planned investment is adequate to meet consumer needs falls under the umbrella of asset management[189]

[186] Clause 14.12 of Attachment A of the GTB ID Determination.

[187] GDB ID Determination, schedule 12b.

[188] Vector, *Cross-Submission to the Commerce Commission on the IDRs for Electricity Distribution Businesses and Gas Pipeline Businesses*, 23 March 2012 (paragraphs 57-58).

6.13.2 daily and hourly gas receipt and delivery quantities are already available on the Open Access Transmission Information System (OATIS). In its cross-submission on the draft ID Determinations, Vector indicated that it has no problem, in principle, with this information being made available via OATIS to other parties (subject to a reasonable fee) [190]

6.13.3 MDL already publishes data on pipeline capacity in an easily accessible form. The capacity disclosure requirements should require pipeline owners themselves to identify the critical points on their transmission systems, the extra capacity available at them and the appropriate measures to overcome any constraints, if necessary. [191]

6.14. Our final decisions also incorporate feedback from the Technical Reference Group meeting on gas, and from the GIC.[192]

189 For example, Powerco, *Submission to the Commerce Commission on the Draft Information Disclosure Determination and Draft Reasons Paper for Electricity Distribution Businesses*, 9 March 2012, page 34.

190 Vector, *Cross-Submission to the Commerce Commission on the IDRs for Electricity Distribution Businesses and Gas Pipeline Businesses*, 23 March 2012 (paragraphs 63-65).

191 Maui Development Limited, *Cross-submission on draft ID determinations*, page 2.

192 The Technical Reference Group met on 1 May 2012 to discuss the technical implementation of ID requirements for GPBs. A representative of the GIC attended this meeting (see attachment D for more information on the Technical Reference Group).

7. Disclosure by sub-networks, regions, and gas transmission systems

7.1. Suppliers must disclose certain information by:

7.1.1 sub-network (EDBs and GDBs)

7.1.2 region (GDBs)

7.1.3 gas transmission systems (GTBs).

Requirements for information by sub-network (EDBs and GDBs)

7.2. We consider that disclosure by sub-network is consistent with the purpose of ID under Part 4. Disclosure by sub-network enables interested persons to separately assess outcomes for different parts of a supplier's network, and in particular to identify any differences in average prices and reliability. This is particularly important:

7.2.1 for consumer-owned suppliers, where fewer than 90% of consumers have a controlling ownership of the supplier (this is currently the case for Eastland, Unison and Vector's electricity distribution business)

7.2.2 where a supplier operates non-contiguous networks (this applies to Aurora, Powerco's electricity and gas businesses, and Vector's gas distribution business, and to any regulated supplier following a merger or asset transfer with another regulated supplier).

7.3. Non-contiguous networks exist where distinctions between the serviced regions may result in substantial differences in performance. A lines or pipeline service charging different standard prices across different regions also constitutes non-contiguous networks, particularly if the incremental cost of disclosing by sub-networks is low.

7.4. Table 11 shows the information suppliers must disclose by sub-network.

Table 11: Information to be disclosed by sub-network and gas transmission system

EDBs	GDBs	GTBs
Schedule 8: Report on billed quantities and line charge revenues Schedule 9a: Asset register Schedule 9b: Asset age profile Schedule 9c: Report on overhead lines	Schedule 8: Report on billed quantities and line charge revenues Schedule 9a: Asset register Schedule 9b: Asset age profile Schedule 9c: Report on pipeline data	Schedule 9d: Report on demand Schedule 10a: Report on network reliability and interruptions Schedule 10b: Report on network integrity

Schedule 9e: Report on Demand Schedule 10: Report on reliability Schedule 12d: Reliability forecast	Schedule 9d: Report on demand Schedule 10a: Report on network reliability and interruptions Schedule 10b: Report on network integrity	

7.5. Under the 2008 requirements, five EDBs were required to disclose information by sub-network, because: [193]

7.5.1 their businesses are consumer-controlled and the number of controlling consumers is less than 90% of the total number of consumers (Eastland, Unison and Vector)

7.5.2 they have ‘non-contiguous’ networks (Aurora and Powerco).[194]

7.6. GDBs have a number of geographically distinct sub-networks. We have decided against applying the definition of non-contiguous networks contained in the 2008 requirements to GDBs, as this could potentially capture a large number of sub-networks (which would potentially multiply disclosure obligations, and substantially increase compliance costs).[195] Instead:

7.6.1 Vector must disclose network, price and quality information for two gas distribution regions: Auckland; and other North Island. We understand these regions correspond to Vector’s internal reporting structure.

7.6.2 Powerco must disclose network, price and performance information for two gas distribution regions: Wellington and the Hutt Valley/Porirua; and Hawkes Bay, Manawatu/Horowhenua, and Taranaki.

7.7. The 2008 requirements also required EDBs to disclose information by non-contiguous network following a merger or asset transfer between EDBs.[196] We included these requirements in the ID Determinations, in respect of sub-networks.

7.8. We expect in the future to consider the location of specified sub-networks based on distinctions between serviced regions.

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193 Commerce Commission, *Electricity Distribution (Information Disclosure) Requirements 2008*, 31 October 2008, clause 2(1).

194 Aurora and Powerco have ‘non-contiguous’ electricity networks and have reporting systems in place that largely enable the required disclosure by sub-network.

195 For example, Powerco estimates that under the non-contiguous definition previously applying to EDBs, its GDB would need to disclose separate data for 35 sub-networks. See Commerce Commission, *Gas Pipeline Services Asset Management Plan Requirements—Workshop Minutes*, pages 5–6.

196 Commerce Commission, *Electricity Distribution (Information Disclosure) Requirements 2008*, 31 October 2008, clause 6(4).

Requirements for information by region (GDBs)

7.9. GDBs must also disclose quality information (schedules 10a and 10b) by region. For this purpose, 'region' means the portions of the network to which each posted standard price schedule applies.

7.10. This will reveal how the different geographies of a GDB's coverage areas may affect price, and will help interested persons to assess trade-offs between price and quality. This requirement is consistent with our approach to the DPP for GDBs.[197]

Requirements for information by transmission system (GTBs)

7.11. GTBs must disclose information by transmission system. For this purpose a transmission system is:

7.11.1 for MDL, the network or one of the component parts of the network owned by Maui Development Limited;

7.11.2 for Vector, one of the component parts of the network owned by Vector Limited.

7.12. Vector must disclose certain information separately for each component part of its transmission network that Vector considers separately for planning and/or operational purposes.

7.13. We consider that MDL's pipeline, with its simpler configuration, is a single transmission system.

7.14. This is consistent with the approach under previous information disclosure arrangements for GTBs. The GIDR capacity disclosures and Energy Delivery Efficiency Performance Measures and Statistics disclosures were also required for individual transmission systems for Vector's transmission network, and for a single transmission system for MDL.

[197] Commerce Commission, *Discussion Paper: Initial Default Price-Quality Path for Gas Pipeline Businesses*, April 2011 (see tables 7.1, 7.2, and 7.3 on pages 40–41).

7.15. The table below summarises the information that GTBs must disclose by transmission system.

Table 12: GTB information disclosed by transmission system

Information GTBs must disclose by transmission system	Reference in ID Determinations
Peak flow information	Clause 2.5.2
Diagrams of each transmission system	Attachment A subclause 6.1 and 6.2
Pipeline capacity information for each transmission system	Attachment A subclause 10
Pipeline data	Schedule 9c
Unaccounted for gas	Schedule 9d
Information concerning unplanned interruptions	Schedule 10a

8. Implementation of the ID requirements

8.1. The purpose of this chapter is to set out the timing and transitional provisions for the full package of information required under the ID Determinations. This chapter sets out our decisions on five matters:

8.1.1 Commencement—when suppliers first need to disclose information under the ID Determinations

8.1.2 Timing—when suppliers must disclose different types of information under the ID Determinations

8.1.3 Disclosure years—what time periods suppliers must disclose information for

8.1.4 Transitional provisions—what we have done to assist the shift to the new ID requirements for EDBs and GPBs

8.1.5 Publication and retention—what suppliers must do to comply with the requirement to publicly disclose information

8.2. The tables in Attachment I set out the timing of initial and ongoing disclosures for EDBs and GPBs.

8.3. Several parties have noted in submissions that the ID requirements are both more substantial and more complex than previous ID requirements.[198] We acknowledge this, and plan to provide support to suppliers and their auditors to help them understand and comply with the ID Determinations, for example through:

8.3.1 implementing an issues register on our website, to enable suppliers or others to seek clarification on the ID requirements

8.3.2 holding workshop meetings with auditors to help them before initial disclosures of historic financial information, to help them become familiar with the ID requirements

8.3.3 holding follow-up discussions with suppliers and their auditors after the first disclosures under the ID Determinations, to debrief and provide feedback

8.3.4 holding workshop meetings with suppliers (if required) to assist them in implementing the ID requirements

8.4. We may seek suppliers' views on what they would find most useful later this calendar year.

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[198] For example, ENA, *Submission on Information Disclosure Determination for Electricity Distribution Businesses: Technical Consultation*, 3 August 2012, paragraphs 124–126.

8.5. Submitters also proposed some changes to make the templates easier to use, including:[199]

8.5.1 The addition of a column in Schedule 16, referencing the schedules relevant to each definition

8.5.2 Inclusion of “to” and “from” references in each template where inputs or outputs are used elsewhere.

8.6. While we have not included these changes in the ID Determinations, we are considering providing this information in the form of guidance to accompany the templates for Schedules 1 to 13.

Commencement

8.7. Suppliers must first disclose historical information under the ID Determinations for their 2013 disclosure years.

8.8. All suppliers except for MDL must prepare and disclose an AMP for the first time under the ID Determinations for the ten year period starting with the 2014 disclosure year. MDL must disclose its first AMP under the new requirements by 31 December 2013, for the ten year period starting on 1 January 2014.[200]

8.9. A majority of suppliers submitted that it would be onerous, and in some cases impossible, to comply with the ID Determinations for a year that has already finished.[201]

8.10. In particular, information on the network (such as the asset register information required to complete Schedule 9a) must be extracted from GIS systems. As these systems operate in real time (and do not store historical data), suppliers are unable to extract network information for a date in the past. [202]

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[199] ENA, *Submission on Information Disclosure Determination for Electricity Distribution Businesses: Technical Consultation from the Electricity Networks Association*, 3 August 2012, paragraph 121; PWC, *Submission to the Commerce Commission on Commerce Act (Electricity Distribution Services Information Disclosure) Determination 2012 – Review of Spreadsheet Templates Issued for Technical Consultation,* 17 August 2012, paragraph 6.

[200] For MDL, disclosure year is defined such that the 12 months from 1 January 2014 to 31 December 2014 is MDL’s 2015 disclosure year.

[201] ENA, *Submission on Information Disclosure Requirements for Electricity Distribution Businesses: Draft Determination and Draft Reasons Paper*, 9 March 2012, paragraph 88; Aurora Energy, *Submission to the Commerce Commission on its Draft Commerce Act (Electricity Distribution Services Information Disclosure) Determination 2012 and Companion Draft Reasons Paper - Information Disclosure Requirements for Electricity Distribution Businesses and Gas Pipeline Businesses*, 9 March 2012, paragraphs 34–37; Vector, *Submission to the Commerce Commission on the IDRs for Electricity Distribution Businesses and Gas Pipeline Businesses*, 9 March 2012, paragraphs 30–32; Marlborough Lines, *Submission on Information Disclosure*, 9 March 2012, Page 2.

[202] ENA, *Submission on Information Disclosure Determination for Electricity Distribution Businesses: Technical Consultation from the Electricity Networks Association*, 3 August 2012, paragraph 117; Powerco, *Technical Submission Information Disclosure Draft Determination*, 3 August 2012, paragraph 17.

8.11. Accordingly we have decided not to require suppliers to disclose under the new IDRs for the 2012 disclosure year.

8.12. Some suppliers submitted that the new ID requirements should not commence until the start of the 2014 disclosure year.[203] We have considered these submissions. In our view it will be possible for suppliers to disclose historical information under the new requirements for the 2013 disclosure year. We recognise that it will not be possible for suppliers to comply with all of the ID requirements for a year that has already begun, and have made a number of transitional provisions to account for this.

Timing

8.13. Suppliers must disclose different types of information at different times:[204]

8.13.1 Before the start of each disclosure year: AMPs/AMP updates and forecast information (including pricing methodologies for EDBs)

8.13.2 After the end of each disclosure year: historical information for the disclosure year (this includes financial information, revenues and volumes, network information, information on quality, and standardised quantitative information from the AMP (or AMP update)

8.13.3 On an ongoing basis: various pricing information

8.13.4 Before the start of each pricing year (GPBs): pricing methodologies, and

8.13.5 By the end of November each year (GTBs): information on peak flows.

Timing of disclosures after the end of a disclosure year

8.14. Consistent with the 2008 IDRs, EDBs must disclose historic information for a disclosure year within five months of the end of that disclosure year.

8.15. GPBs must disclose historical information within six months after the end of the disclosure year. This is to allow GPBs to incorporate the results of wash-up calculations for the full disclosure year in their disclosed information.[205]

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[203] For example Horizon Energy, *Submission to the Commerce Commission on the Draft Information Disclosure Determination and Draft Reasons Paper for Electricity Distribution Businesses*, 9 March 2012, paragraph 56; ENA, *Submission on Information Disclosure Requirements for Electricity Distribution Businesses: Draft Determination and Draft Reasons Paper*, 9 March 2012, paragraph 88; Unison, *Submission on Information Disclosure Requirements for Electricity Distribution Businesses and Gas Pipeline Businesses – Update Paper for Technical Consultation (Public Version)*, paragraph 25.

[204] Attachment I provides more detail on when suppliers must disclose different types of information under the ID Determinations.

[205] Powerco, *Submission to the Commerce Commission on the Draft Information Disclosure Determination and Draft Reasons Paper for Electricity Distribution Businesses* 9 March 2012, page 30.

Timing of AMPs

8.16. Suppliers are required to disclose AMPs twice in each regulatory period (in the first year of the regulatory period, and in the year before the regulatory period ends).[206]

Disclosure years

8.17. Suppliers must disclose information based on the following disclosure years:

8.17.1 For all EDBs, a disclosure year is the 12-month period ending on 31 March.[207]

8.17.2 The disclosure year for Vector and GasNet is the 12-month period ending on 30 June

8.17.3 The disclosure year for Powerco is the 12 month period ending on 30 September

8.17.4 The disclosure year for MDL is the 12 month period ending on 31 December.

8.18. GasNet, Vector, and MDL strongly supported a regulatory disclosure year that was aligned with their respective financial years.[208] These three companies reiterated their objections to a different disclosure year in submissions in our separate consultation on changes to input methodologies.[209] However, Powerco expressed a preference to shift to an October to September disclosure year.[210]

8.19. For all suppliers, except MDL, we have defined disclosure year consistently such that, if the term 'disclosure year' is combined with a year, the disclosure year is the 12-month period ended that year. For MDL, if the term "disclosure year" is combined with a year, it refers to the preceding calendar year (e.g. for MDL, disclosure year 2014 is the 12 months ended 31 December 2013).[211]

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206 See chapter 5 of this paper, paragraphs 5.76 to 5.78.

207 This is a continuation of the disclosure year that applied under the 2008 IDRs.

208 Gasnet, *Submission on Information Disclosure Requirements for Gas Pipelines Businesses - Draft Determination*, 9 March 2012, paragraph 29; MDL, *Submission to the Commerce Commission on the Draft Information Disclosure Determination and Draft Reasons Paper for Electricity Distribution Businesses,* 9 March 2012, pages 11-12, paragraphs 50-54; Vector, *Submission to the Commerce Commission on the IDRs for Electricity Distribution Businesses and Gas Pipeline Businesses,* 9 March 2012, page 13, paragraph 47.

209 See Commerce Commission, *Consultation on Electricity and Gas Input Methodology Determination Amendments 2012,* 11 May 2012; GasNet, *Submission on Proposed Amendments to Input Methodologies*, 30 May 2012, paragraphs 4 to 10; MDL, letter to Karen Murray, submitting on proposed amendments to Input Methodologies, 1 June 2012; Vector, *Consultation on Electricity and Gas Input Methodology Determination Amendments 2012,* 1 June 2012, paragraphs 15 to 25.

210 Powerco, *Submission on Input Methodology Determination Amendments,* 29 May 2012, paragraphs 18 to 19.

211 We have defined MDL's disclosure in this way to be consistent with the definition in the IM for GTBs. MDL expressed a preference for defining its disclosure year in the in the same was as for other suppliers (MDL, letter to Anna McKinlay, 3 August 2012, item 35.)

Transitional provisions

8.20. The ID Determinations include transitional provisions to address four distinct objectives:

8.20.1 To provide information on how regulatory balances have been established and rolled forward from the start of the Part 4 regime

8.20.2 To provide for continuity of information in the transition from previous ID requirements to the ID Determinations

8.20.3 To allow regulated suppliers time to establish systems, collect information, or develop the capability needed to comply with specific ID requirements

8.20.4 To recognise that suppliers will not have some of the information required under the ID Determinations, for the 2013 disclosure year, and preceding disclosure years.

Information on how regulatory balances have been established and rolled forward

8.21. Suppliers must, as part of their first disclosure of historical information, complete and disclose a report (Schedule 5h) showing:

8.21.1 how the initial RAB value was established

8.21.2 how the RAB value has been rolled forward from the beginning of the Part 4 regime

8.21.3 how other key values (such as regulatory tax, and works under construction) have been rolled forward from the beginning of the regime.

8.22. EDBs who chose to adjust their initial RAB value, as provided for in the IM, must also disclose schedule 5i (which provides information on the initial RAB adjustment), and provide an engineer's report.

To provide for continuity of information

Disclosure of limited historical information for the 2012 year

8.23. Suppliers (other than MDL) must disclose limited information for the 2012 disclosure year, no later than their disclosure for the 2013 year, specifically:

8.23.1 ROI for the 2012 disclosure year (as a prior year disclosure in schedule 2);

8.23.2 the report on regulatory profit (Schedule 3)

8.23.3 revenues and volumes billed (Schedule 8).

8.24. We consider that suppliers should be able to provide this information from their existing systems (with the possible exception of information on related party transactions, which we discuss below). Further, there are benefits from commencing a time series of IM-compliant information on financial performance a year earlier.

Information on gas capacity (MDL)

8.25. MDL must comply with the new ID requirements in disclosing information for the 12 months to 31 December 2012. However, MDL is not required to disclose its first AMP (including information on transmission system capacity) until 31 December 2013. This gives rise to a potential gap in publicly disclosed information on MDL's transmission system capacity and peak flows.

8.26. We have therefore decided to require MDL to make a transitional disclosure by 28 February 2013 of information on:

8.26.1 peak flows for the year ended 31 December 2012

8.26.2 transmission system capacity.

Continuity gap (Powerco)

8.27. The transition from the GIDRs to the ID Determination will result in a six month gap in non-financial information about Powerco's GDB business.[212] We do not consider this gap is sufficiently material to merit further transitional requirements.

Allowing regulated suppliers time to establish systems, collect information, or develop capability

AMPs

8.28. GasNet and MDL may provide a transitional form of AMP during the first -five year DPP regulatory period (or until such time that their AMP conforms to the full requirements).

Related party transactions

8.29. In disclosing limited financial information for the 2012 disclosure year (as discussed in paragraph 8.23, suppliers may value related party transactions consistent with GAAP, except for transactions covered by the IM for asset valuation. For transactions in the 2012 disclosure year that are covered by the IM, suppliers must apply the provisions in clauses 2.2.11 (e)-(g) of the IM, and complete the report on related party transactions in schedule 5b.

Pricing information

8.30. Transitional provisions will apply for the pricing year beginning on October 1 (for GDBs and GTBs) and for the 2013 disclosure year (for EDBs). This is to enable suppliers to collect this information and put the necessary systems in place (see paragraphs 4.62 to 4.64 for more detail).[213]

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212 Powerco will disclose information for the 12 months ended 31 March 2012, under the GIDRs, and will then disclose information for the 12 months ended 30 September 2013 under the ID Determinations (including limited financial information for the 12 months ended 30 September 2012).

213 ENA submitted that these requirements should not apply until the start of the 2014 disclosure year (ENA, *Submission on Information Disclosure Determination for Electricity Distribution Businesses: Technical Consultation*, 3 August 2012, paragraph 118). We do not agree. These requirements are part of the

8.31. GasNet and Vector, in their technical consultation submissions, considered that transitional provisions should apply to the disclosures of pricing methodologies and prices for GPBs. For GDBs and GTBs, disclosures that would normally be made at or prior to the start of the pricing year (pricing methodologies and prices disclosure) are not required to be publicly disclosed for the first time until five months after the ID Determinations come into force.

To recognise that suppliers will not have some of the information required

8.32. Several suppliers submitted that they would not be able to disclose certain information until after the disclosure year 2013, as they have not been collecting the information, or need to make changes to internal systems to collect information in the required form:

8.32.1 Suppliers need time to make changes to the physical asset and financial systems before they can report on asset values using the asset categories in the ID Determinations.[214]

8.32.2 Suppliers would need to restate actual results for the 2013 disclosure year, in order to report using the expenditure categories in the ID Determinations.[215]

8.32.3 It is unreasonable to require EDBs to recast existing forecasts for the purposes of the Comparison of Forecasts to Actual Expenditure (in Schedule 7). Only aggregate forecasts of network related capex and opex should be disclosed for the 2013 disclosure year (as this is available from prior disclosures under the 2008 requirements).[216]

8.32.4 As GIS systems operate in real time, GIS systems cannot provide historic data. As a result some of the required network information cannot be collected retrospectively.[217]

8.33. In disclosing information for the 2013 disclosure year, we encourage suppliers to use best efforts to provide information consistent with that required by the ID Determinations. Where accurate information is not available for the 2013 disclosure

ongoing requirements to make pricing information available, and are not linked to a specific disclosure year. Further, delaying the disclosure of this information would not be in the interests of consumers.

214 Powerco, *Technical Submission Information Disclosure Draft Determination*, 3 August 2012, pages 4–5, 14.

215 Powerco, *Technical Submission Information Disclosure Draft Determination*, 3 August 2012, paragraph 13 and page 14.

216 ENA, *Submission on Information Disclosure Determination for Electricity Distribution Businesses: Technical Consultation from the Electricity Networks Association*, 3 August 2012, paragraphs 114–116.

217 Powerco, *Technical Submission Information Disclosure Draft Determination*, 3 August 2012, page 15; ENA, *Submission on Information Disclosure Determination for Electricity Distribution Businesses: Technical Consultation from the Electricity Networks Association*, 3 August 2012, paragraph 117; Horizon Energy, *Submission to the Commerce Commission on the Draft Information Disclosure Determination for Electricity Distribution Businesses and Update Paper for Technical Consultation,* 3 August 2012, paragraph 10.

year, we encourage suppliers to provide estimates.[218] Suppliers have the option of commenting on the accuracy of estimated information, should they wish to, through voluntary explanatory notes.

8.34. We have included a number of transitional provisions in the ID Determinations, to recognise the data limitations highlighted by submitters.

Disclosure of asset values by asset category (schedules 4, 5e, and 5g)

8.35. Suppliers are not required to disaggregate asset values by category in disclosing information for the 2013 disclosure year, or in disclosing information on asset allocations for prior disclosure years. However, in completing the Report on the RAB Value (Rolled Forward) for the 2013 disclosure year, suppliers must provide closing asset values, disaggregated by category, for the 2013 disclosure year.

Disclosure of expenditure by category (schedules 6a, 6b, and 7)

8.36. In disclosing capital and operational expenditure for the 2013 disclosure year, EDBs may use information collected on the basis of the expenditure categories in the 2008 requirements. The ID Determination for EDBs specifies how expenditure information based on the 2008 requirements should be mapped to the expenditure categories in the ID Determinations.

8.37. Suppliers are not required to disclose fully disaggregated expenditure for the 2013 disclosure year—they must only complete a high level breakdown of expenditure.

8.38. In completing the Comparison of Forecasts to Actual Expenditure in schedule 7, suppliers are only required to disclose aggregated capital and operational expenditure forecasts. This will enable them to use forecasts prepared for other purposes (for example under the 2008 requirements for EDBs) to complete schedule 7 for the 2013 disclosure year.

8.39. For the 2013 disclosure year only, disclosures of capital and operational expenditure disaggregated by category will not need to be audited.

Network information (schedule 9a)

8.40. Recognising that information cannot be extracted from GIS systems for a past date, we have provided that, for the purpose of the asset register in schedule 9a, if opening values are not available, suppliers only need to provide closing values for the 2013 disclosure year.

Prior year disclosures of financial information (schedules 2 and 4)

8.41. In completing the Report on Return on Investment in schedule 2 for the 2013 disclosure year, suppliers will not be required to disclose their ROI for disclosure years prior to the 2012 disclosure year.

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218 We note that for some types of network information, the ID Determinations explicitly provide for suppliers to give estimates, tagged with an assessment of their accuracy.

8.42. In completing the Report on the RAB Value (Rolled Forward) in schedule 4, suppliers will not be required to disclose prior year information on the RAB value for "current year – 4" (as this pre-dates the Part 4 regulatory regime).

MDL's first AMP

8.43. MDL will not be required to disclose an AMP by 31 December 2012, as this would allow only three months to prepare this AMP. As this is not feasible, the ID Determinations provide that MDL is not required to disclose its first AMP until 31 December 2013.

8.44. As a consequence, MDL will not be required to disclose quantitative forecast information (Schedules 11a to 12b) with its annual disclosure of historic information until 30 June 2014.

Publication and retention

8.45. Where suppliers are required to publicly disclose information, they must:

8.45.1 disclose the information on the Internet

8.45.2 make copies of the information available for inspection by any person

8.45.3 provide a copy of the information to any person on request within 10 working days of being requested to do so

8.45.4 provide a copy of the information to the Commission within 5 working days of disclosure to the public

8.45.5 retain information supporting the disclosures for at least seven years.

8.46. The information provided to the Commission must be in an electronic format that:

8.46.1 is compatible with Microsoft Excel, for the standardised reports provided for in Schedules 1 to 13 of the ID Determinations

8.46.2 for other information (such as AMPs), is compatible with Microsoft Word.

8.47. Suppliers must also notify consumers when they change their prices. Paragraphs 4.32 to 4.33 of this paper discuss our decision and reasons on this topic.

8.48. Disclosure on suppliers' websites is in line with general practice, and is a cost-effective way of making disclosed information readily available to interested persons. We have decided not to require suppliers to publish a notification in the Gazette to advise that disclosures have been made. Most interested persons can readily access the disclosures on the relevant supplier's websites, and may not rely on a Gazette notice.[219]

[219] In particular, the ID Determinations do not mandate specific dates for disclosures to be made, which reduces the usefulness of notification in the Gazette.

8.49. We have developed standardised Microsoft Excel and Microsoft Word templates for the disclosure of standardised quantitative information and explanatory notes. Suppliers may use these templates to prepare the required reports, and to comply with their obligation to provide us with a copy of disclosed information in a Microsoft Excel or Microsoft Word format (as applicable).

8.50. ENA submitted that while EDBs are required to submit their disclosure templates in Excel to the Commission, other parties will not have access to the Excel versions of the templates. Other parties will therefore will be severely limited in the analysis they are able to do (unless they create their own versions manually).[220]

8.51. We agree with ENA that, to fully enable interested persons to assess suppliers' performance, disclosed information must be available in a form that facilitates analysis. Suppliers are required to disclose the information on their usual publicly accessible website. We have not specified in the ID Determinations the format in which information should be disclosed. However, we encourage suppliers to make standardised quantitative information available to interested persons in a spreadsheet format, on the Internet.

8.52. MDL submitted that it is surprised that the definition of 'publicly disclose' requires use of proprietary file formats for which compatibility can only be assured by use of proprietary Microsoft® products. We acknowledge that businesses may use different software packages. However, Microsoft Excel and Microsoft Word are widely used products that are readily accessible to most interested persons. We have specified that suppliers must provide copies of disclosed information to us in these formats, as this will enable us to more effectively:

8.52.1 monitor compliance with the ID Determinations

8.52.2 meet our obligation under s53B(2)(b) of the Act to publish a summary and analysis of disclosed information.

[220] ENA, *Submission on Information Disclosure Determination for Electricity Distribution Businesses: Technical Consultation*, 3 August 2012, paragraph 19.

9. Assurance and certification

9.1. We require suppliers to provide:

9.1.1 general director certification for all disclosed information except prices and /or prescribed terms and conditions.

9.1.2 specific director certification that the information used to prepare the non-financial schedules is sufficient and appropriate, the objectivity and reasonableness of assumptions used for forecasts, and the value of certain related party transactions.

9.1.3 an audit opinion of the historical financial information disclosed, and for EDBs and GDBs the SAIFI and SAIDI network reliability statistic, which provides the "complied, in all material respects with" level of assurance.

9.2. Section 53C(3) of the Act provides that a determination under s 52P may require information to be verified by statutory declaration or audit. Under section 53C(3)(f) we may impose any other requirements that we consider necessary or desirable to promote the purpose of information disclosure regulation. We interpret this provision as enabling us to require other forms of verification, if doing so promotes the purpose of information disclosure.

9.3. Interested persons, including the Commission, need assurance that disclosed information has been prepared in accordance with the determination, to have confidence in their assessments of whether the purpose of Part 4 is being met.

9.4. In determining the verification framework, we considered submissions, the availability of supporting records, the level of prescription in the relevant requirements, the suppliers' other likely verification requirements, the costs involved, and the extent to which interested persons may rely on the disclosed information.

Director certification

9.5. We require director certification that all information disclosures, except prices and /or prescribed terms and conditions, comply with the applicable ID Determination.

9.6. Director certification is a relatively cost-effective means of gaining assurance as it is expected that directors would be able to certify information given their knowledge of the business. We expect that directors will seek whatever advice they consider is needed prior to signing the director's certificate, which may include senior executive or external advice.

9.7. The use of director certification is consistent with the verification requirements used by the Commission for airports and local fibre companies.

Scope and nature of director's certification

9.8. For most information, we only require that the director certification is provided via an overarching statement. This includes the financial information which is also subject to external audit assurance.

9.9. Submissions raised concerns over the scope of the regulatory audit and in particular the need for the auditor to provide assurance of non-financial information.[221,222] Our final approach recognises this concern by having the assurance of much non-financial provided by director certification rather than by an assurance report prepared by an independent auditor.

9.10. To provide interested persons with adequate assurance of the reliability of the information, which is not covered by the auditor's assurance report, we require the directors to provide express certification regarding the sourcing of some of the non-financial information and the objectivity and reasonableness of assumptions used for forecasts.

9.11. We also require that the directors explicitly identify where certain areas of the non-financial information are not based on sufficient appropriate information from the supplier's reporting systems. This allows interested persons to better assess the reliability of the disclosed information.

9.12. We also require directors to certify the value of related party transactions which are not based on one of the prescribed six options to provide interested parties with additional assurance that the value reflects an arm's-length price.

9.13. We understand that suppliers employ staff and contractors who are skilled in these specialised areas, including areas outside of the auditor's expertise. These experts can advise directors on the reliability of key assumptions and methodologies used in preparing the information disclosure. For suppliers this should reduce compliance costs compared to requiring verification by expert third parties, such as auditors' experts.

Independent auditor's assurance report

9.14. We require that the suppliers provide an assurance report which:

9.14.1 is prepared by an independent auditor;

9.14.2 must be prepared in accordance with Standard on Assurance Engagements SAE 3100 – Compliance Engagements, and International Standard on Assurance Engagements 3000 (ISAE (NZ) 3000), or their successor standards;

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221 ENA, *Submission on Information Disclosure Technical Consultation*, 3 August 2012, paragraphs 99-100, 110-112

222 Vector, *Submission on Information Disclosure Technical Consultation*, 3 August 2012, paragraphs 20-22.

9.14.3 includes a statement that it has been prepared for us and the directors as the intended users;

9.14.4 covers the financial information in Schedules 2 to 7 and the SAIDI and SAIFI statistics for network reliability in schedule 10(i) and 10a(i) (for EDBs and GDBs respectively);

9.14.5 Is prepared following the scope and review procedures which we have specified in the ID Determination.

9.15. We consider that there is significant benefit in having an independent auditor provide assurance of the financial information disclosure, and in particular the processes used to prepare these statements. An independent auditor is expected to identify deficiencies in processes and information, and provide reassurance as to its reliability.

Level of assurance and scope

9.16. We require that the auditor provides a reasonable assurance opinion in accordance with Standard on Assurance Engagements SAE 3100 – Compliance Engagements, and International Standard on Assurance Engagements 3000 (ISAE (NZ) 3000)". This approach ties our audit requirements in with the current relevant assurance standards, and is comparable to the level of assurance we require for regulatory audits of airports and local fibre companies.

9.17. Suppliers may engage the same auditor for both regulatory information disclosure and the statutory reports, provided the relevant professional standards allow this while ensuring audit independence. This should reduce the compliance costs, as much of the information to be audited under the determination will be subject to independent audit for statutory purposes.

9.18. We require the auditor to disclose the existence of any other relationship it has with or interests in the supplier and its subsidiaries. ENA raised a concern about the difficulties of extending this requirement to include all related parties.[223] We consider that it is not appropriate to include all related parties as such a requirement could be overly onerous. The wording of the requirements addresses this concern.

9.19. We consider that it is important that proper accounting records exist to allow the auditor to make an informed audit opinion, and that if such records do not exist for interested persons can better understand the suppliers operational standards and the reliability of the disclosed information. Several submissions raised concerns about requiring the auditor to state whether the suppliers had maintained proper records.[224] The assurance standards require that auditors obtain sufficient appropriate evidence and allow for the specifics of such disclosure requirements to be determined by external bodies, such as ourselves.[225] Our requirements address

[223] ENA, *Submission on Information Disclosure Technical Consultation*, 3 August 2012, paragraphs 101-102

[224] ENA, *Submission on Information Disclosure Technical Consultation*, 3 August 2012, paragraphs 106-109.

[225] NZICA, *Standard on Assurance Engagements 3100 -Compliance Engagements*, paragraphs 2(a), 37 and 66

some of the submitters' concern by limiting the scope of the audit to financial information which is often already subject to the record (keeping requirements for statutory audit.).

9.20. We consider that a well run-supplier should already maintain proper accounting records for other purposes including statutory reporting, statutory audit and taxation purposes, and hence should not incur unreasonable additional cost in having to maintain any additional accounting records to the level required by our determination.

9.21. We also require audit of those explanatory notes in Schedules 14 and 14b which relate to historic financial information. Vector submitted that the explanatory notes should not be audited.[226] As this information provides explanation of the data disclosed in the schedules, interested persons are likely to rely on it to inform their assessments of the financial schedules, and would benefit from their being audited. It is also likely that the auditors would consider much of the information contained in these schedules when obtaining sufficient appropriate evidence to form their regulatory assurance report and/or statutory audit opinion.

9.22. For EDBs and GDBs, we also require the auditor to provide an opinion on the SAIDI and SAIFI statistics disclosed in Schedule 10. Due to the significance of this information to both our work on setting price-quality paths and other interested persons in forming assessments of whether the purposes of Part 4 are being met, it is important that it is independently verified.

Use by the directors and Commission

9.23. We require that the assurance report includes a statement that it has been prepared for both us and the supplier's directors for the purpose of providing assurance.

9.24. Several parties submitted that the ID Determinations should not require audit assurance reports to include a duty of care to the Commission.[227] We considered how to continue recognising our interest in the assurance report, while also removing this issue of concern. In doing so, we liaised with the Office of the Auditor-General, the New Zealand Institute of Chartered Accountants, and the External Reporting Board.

9.25. ISAE (NZ) 3000 states that where practicable, the assurance report should be addressed to all intended users. However, if the auditor cannot identify all of the

[226] Vector, *Submission on Information Disclosure Technical Consultation*, 3 August 2012, paragraphs 20-22.

[227] Including ENA, *Submission on Information Disclosure Requirements for Electricity Distribution Businesses: Draft Determination and Draft Reasons Paper,* 9 March 2012, paragraph 279; PWC, *Submission to the Commerce Commission on Draft Commerce Act (Electricity Distribution Services Information Disclosure) Determination 2012,* paragraph 218; Powerco, *Submission on Draft Commerce Act (Electricity Distribution Services Information Disclosure) Determination 2012 & Draft Commerce Act (Gas Distribution Services Information Disclosure) Determination*, pages 13 and 31; Wellington Electricity, *Information Disclosure Requirements (IDR)—Draft Reasons Paper,* section 7, page 13; Office of the Auditor General, *Comments on Draft Commerce Act (Electricity Distribution Services Information Disclosure) Determination* 2012, 13 March 2012.

readers of the assurance report, or if readers are likely to have a broad range of interests in the subject matter, this can be limited to major stakeholders.

9.26. Our requirements to include both us and the directors as intended users of the assurance report, addresses submitters concerns over the duty of care wording, and is consistent with SAE 3100 and ISAE (NZ) 3000. This approach reflects that we, as an interested person, will rely on the assurance report, and ensures that the independent auditors will have some accountability to us.

9.27. This approach continues to recognise the interest of the suppliers' directors in the audit. It also allows for the audit agreement to be a bipartite agreement between the supplier and its auditor, which does not include us.

Attachment A: Our approach to ensuring ID requirements are cost-effective

A1 The Act specifies that the Commission must determine ID requirements to ensure that sufficient information is readily available to interested persons to assess whether the purpose of Part 4 is being met.

A2 We consider that attempting to undertake a cost-benefit analysis of the ID requirements could potentially detract from recognition that this statutory requirement, and therefore the Commission's primary concern, is the establishment of an ID regime that meets the Part 4 purpose.

A3 However, in meeting the purpose of ID, we need to recognise that the information required under the ID Determinations comes at a cost—a cost to suppliers, and ultimately to consumers. We therefore need to balance the benefits from the greater transparency the ID Determinations will provide against the costs of complying with the requirements. In doing so, we have:

A3.1 taken account of suppliers' existing practices and capability

A3.2 required disaggregated information only where necessary

A3.3 aligned ID with other parts of the Part 4 regime

A3.4 limited ID requirements where we consider the benefit to interested persons does not justify the compliance costs

A3.5 sought technical input from the electricity and gas sectors, including through industry workshops and a Technical Reference Group made up of industry representatives.

Taking account of suppliers' existing practices and capability

A4 Where possible, we have aligned the ID requirements with existing business practices and with the existing capability of regulated suppliers, for example by:

A4.1 relying on existing information gathering practices and readily available data formats, where possible

A4.2 providing suppliers with flexibility, where appropriate, to present information in a manner which reflects how they manage their businesses (for example for pricing methodologies, AMPs, and information on gas transmission capacity)

A4.3 requiring disclosure of information that is useful for suppliers in running their businesses. For example in determining requirements for information on network management, we have applied the principle that we should not seek disclosure of information that we do not consider a company applying good industry practice would have available (or would seek to have available) to ensure its asset management practices are effective

A4.4 allowing suppliers to disclose estimated values for some types of network information, tagged with an assessment of their accuracy. As a result suppliers will be able to disclose based on readily available information or estimates. This applies to information on the asset register, asset age profile, and asset condition

A4.5 providing transitional arrangements that adjust the timing and application of provisions for some disclosure requirements for an initial period after the commencement of ID regulation under Part 4. For example, we have provided a transitional period for MDL and GasNet for AMPs, to allow them a reasonable period to build up their capability in this area before they must comply with the full AMP requirements.[228]

Requiring disaggregated information only where necessary

A5 A number of suppliers raised concerns about the costs of disclosing information on a disaggregated basis. These concerns applied in particular to disaggregated information on expenditure, and the network, and (for EDBs) reliability.[229]

A6 We have carefully considered the appropriate level of disaggregation for disclosed information, taking account of submissions. As a result, the extent of disaggregation in the final ID Determinations is substantially lower than we proposed in our draft ID Determinations.[230]

A7 We have based the ID requirements on the principle that disaggregated information should be required only where it is necessary:

A7.1 to identify the drivers of expenditure

A7.2 to provide information which would not otherwise be disclosed on a significant item

A7.3 to inform the assessment of a company's performance over time

[228] These transitional arrangements are discussed in paragraphs 5.81 to 5.83. Transitional provisions are also discussed in chapter 8.

[229] Wellington Electricity Lines, *Information Disclosure Requirements (IDR) - Draft Reasons Paper*, 9 March 2012, page 5, paragraph 4.2; Marlborough Lines, *Submission to the Commerce Commission on the Draft Information Disclosure Determination and Draft Reasons Paper for Electricity Distribution Businesses*, 9 March 2012, page 1; PWC, *Submission to the Commerce Commission on Draft Commerce Act (Electricity Distribution Services Information Disclosure) Determination 2012 made on behalf of 22 Electricity Distribution Businesses*, 9 March 2012, paragraph 63; ENA, *Submission on Information Disclosure Requirements for Electricity Distribution Businesses: Draft Determination and Draft Reasons Paper*, 9 March 2012, paragraphs 83, 274–275.

[230] Draft Commerce Act (Electricity Distribution Services Information Disclosure) Determination 2012; Draft Commerce Act (Gas Distribution Services Information Disclosure) Determination 2012; Draft Commerce Act (Gas Transmission Services Information Disclosure) Determination 2012 (all under Part 4 of the Commerce Act 1986) released on 16 January 2012.

A7.4 disaggregation should be based, wherever possible, on a consistent hierarchy to ensure information can be compared across networks, expenditure drivers, expenditure, and performance data.

A8 We consider we have reached a pragmatic balance between the extent of disaggregated information interested persons need in order to address the key performance questions we identified in chapter 2 of this paper, and the concerns raised by suppliers.

Aligning ID with other regulatory requirements

A9 ID is a specific form of regulation under Part 4, with its own clearly defined purpose, and is independent of other regulatory instruments. However, in determining ID requirements we have been conscious that ID is also part of a wider package of regulation under Part 4.

A10 In order to promote the long-term interests of consumers, and maximise the cost-effectiveness of regulation under Part 4, we have sought to align ID requirements with other parts of the Part 4 regulatory regime, where appropriate. For example:

A10.1 While we have taken the opportunity to refine the expenditure categories suppliers must use to disclose financial information, we have specified categories that map to the information required under the Input methodologies for customised price-quality paths (CPP IMs). This will enable suppliers applying for a CPP to use information disclosed under the ID Determinations in preparing their CPP application.

A10.2 We have specified ID requirements so that we can use information disclosed in accordance with the ID Determinations, where appropriate, in setting price-quality paths.

A10.3 We have aligned the years in which suppliers must disclose full AMPs with the timing of starting price adjustments. This is intended to reduce the regulatory burden on non-exempt EDBs, as the information in the AMPs can be used to inform regulatory decisions on starting prices (reducing the need for specific information requests under s 53ZD).

A11 In addition, we have worked closely with the EA to align our ID requirements with the EA's ongoing development of its pricing principles and guidelines.

Limiting ID requirements to reduce compliance costs

A12 In addition, we have limited the ID requirements in some areas in order to reduce costs for suppliers, for example:

A12.1 AMPs are only required to be disclosed twice in every five year regulatory period

A12.2 the requirement to publicly disclose prescribed terms for non-standard contracts is simplified (limited terms and conditions of non-standard contracts are required to be publicly disclosed)

A12.3 suppliers will not be required to disclose consolidation statements

Technical input from the electricity and gas sectors

A13 In developing the ID Determinations, we sought input from suppliers to help us limit unnecessary additional cost, and enhance the usefulness of the information to suppliers (for example, as potential benchmarking information). We:

A13.1 held industry workshops in May and June 2011 on key areas of information disclosure[231]

A13.2 sought practical input from a Technical Reference Group (comprising industry representatives from a range of small and large suppliers of gas distribution, gas transmission and electricity distribution services). For example, the asset categories in the draft ID Determinations largely reflect the proposals made by nominated industry representatives from the Technical Reference Group.[232]

A14 In particular, in light of submissions on our draft ID Determinations we reconvened the Technical Reference Group, to obtain detailed technical feedback on the implementation and workability of proposed ID requirements, focussing on:

A14.1 information on network management (that is, historic and forecast information on disaggregated expenditure, network assets, and quality)

A14.2 Attachment B of the draft ID Determination for GTBs and the draft ID Determination for GDBs, requiring information on pipeline capacity.

A15 As a result of this further consideration we have made a number of changes to the ID requirements, and have reduced the level of detail required in certain areas.

A16 Submissions on our revised draft ID Determinations (released in July 2012) acknowledged these changes. Submitters identified a number of improvements in the ID requirements from the initial draft ID Determinations released in January 2012, including refinements to requirements for information on network management, and improved schedules and definitions.[233]

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231 Agendas, papers, and minutes from these workshops are on our website at http://www.comcom.govt.nz/part-4-review-of-electricity-information-disclosure-requirements/ and at http://www.comcom.govt.nz/gas-information-disclosure/.

232 [provide details of Technical Reference Group meetings]

233 ENA, *Submission on Information Disclosure Determination for Electricity Distribution Businesses: Technical Consultation*, 3 August 2012, paragraph 6; PWC, *Submission to the Commerce Commission on Commerce Act (Electricity Distribution Services Information Disclosure) Determination 2012 – Final Draft for Technical Consultation,* 3 August 2012, paragraph 13, GasNet, *Submission on Information Disclosure Requirements*

A17 Attachment C summarises the consultation we have undertaken on the development of the ID requirements. Attachment D provides further information on the role and membership of the Technical Reference Group.

A18 We consider we have struck a good balance between meeting the purpose of ID, and limiting the costs of the information. We expect that the information required by the ID Determinations, and in particular the introduction of more standardised information on expenditure and asset management, will generate significant long term benefits to consumers.

A19 For example the introduction of new information on network management will strengthen the focus on efficiency in regulated services. This information will provide greater transparency around the level of expenditure on different activities, and what that expenditure delivers. The standardised format for quantitative information will make it easier for interested persons to access this information, and to identify trends.

A20 We expect the improved transparency about how suppliers are managing their networks will encourage regulated suppliers to identify and share best practices in asset management. As an example, disaggregated information on vegetation expenditure, combined with information on the length of overhead circuit requiring vegetation management, will draw out differences in expenditure between EDBs, and allow them to assess whether their spend is appropriate.[234]

A21 The ID Determinations will improve transparency on the performance of key regulated infrastructural services, and on future investment requirements of regulated services. This is in line with broader moves (for example, by Treasury's National Infrastructure Unit) to improve transparency of the management of infrastructural assets generally.[235]

A22 Finally, we expect the ID requirements to lead to better engagement with consumers. For example, the disclosed information will provide consumers with better information on:

A22.1 the link between suppliers' expenditure, and what that expenditure is expected to produce in terms of service delivery;

A22.2 the prices that apply to them, how those prices have been set, and any planned future changes to pricing; and

A22.3 the quality of service suppliers' are currently delivering, and expect to deliver in the future.

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for Gas Pipeline Businesses - Draft Determination for Technical Consultation, 3 August 2012, paragraph 4; Vector, *Submission to the Commerce Commission on Information Disclosure Requirements for Electricity Distribution Businesses and Gas Pipeline Businesses: Technical Consultation*, 3 August 2012, paragraphs 7–8; Powerco, *Technical Submission Information Disclosure Draft Determination*, 3 August 2012, paragraph 2.

234 PowerNet, *Approach for Understanding EDB and GPB Cost Efficiency*, 11 November 2011, paragraph 7.3

Attachment B: Summary of key legislative provisions

B1 Section 54F of the Act provides that suppliers of electricity lines services are subject to information disclosure regulation. Section 55C provides that gas pipeline services are subject to information disclosure regulation. There are 29 suppliers of regulated electricity lines services (referred to as electricity distribution businesses or EDBs) and four suppliers of regulated gas pipeline services (referred to as gas pipeline businesses or GPBs).[236]

Part 4 of the Commerce Act 1986

B2 Electricity lines services and gas pipeline services are subject to ID regulation under sections 54F (electricity) and 55C (gas) of Part 4. For the purposes of regulation under Part 4, electricity lines services has the meaning set out in s 54C of the Act; gas pipeline services has the meaning set out in s 55A.

B3 The effect of being subject to ID regulation is set out in s 53B. This includes disclosing information publicly and providing copies of that information to the Commission.[237] The Act requires that the Commission's ID determinations under s 52P(3) must:

B3.1 set out the requirements that apply to each regulated supplier

B3.2 set out any timeframes that must be met or that apply

B3.3 specify the IMs that apply

B3.4 be consistent with Part 4.

B4 Under s 53C(1), determination under s 52P relating to goods or services subject to ID regulation must specify:

B4.1 the goods or services to which it applies

B4.2 the suppliers to which it applies

B4.3 the information to be disclosed

B4.4 the manner in which the information is to be disclosed

B4.5 the form of disclosure

B4.6 when, and for how long, information must be disclosed

B4.7 the IMs that apply

236 GPBs include gas transmission businesses and gas distribution businesses. Where we refer separately to gas transmission businesses in the text of this paper and in the draft ID requirements, we use the term GTBs. We use the term GDBs for gas distribution businesses.

237 In accordance with any information disclosure requirements set by way of a determination under s 52P of the Act.

B4.8 any other methodologies that are required in the preparation or compilation of the information.

B5 Section 53C(2) sets out a non-exhaustive list of the types of information that may be required to be disclosed under ID regulation, including:

B5.1 financial statements

B5.2 asset values and valuation reports

B5.3 prices, terms and conditions relating to prices, and pricing methodologies

B5.4 contracts

B5.5 transactions with related persons

B5.6 financial and non-financial performance measures

B5.7 plans and forecasts

B5.8 asset management plans (AMPs)

B5.9 quality performance measures and statistics

B5.10 assumptions, policies and methodologies used or applied in these or other areas

B5.11 consolidated information that includes information about unregulated goods or services.

B6 Pecuniary penalties under s 86 and 86B of the Act may apply in relation to contraventions of the requirements.

Part 4 purpose

B7 Section 52A(1) sets out the Part 4 purpose of the Act (the Part 4 purpose):

> The purpose of this Part is to promote the long-term benefit of consumers in markets referred to in section 52 by promoting outcomes that are consistent with outcomes produced in competitive markets such that suppliers of regulated goods and services–
>
> (a) have incentives to innovate and to invest, including in replacement, upgraded, and new assets; and
>
> (b) have incentives to improve efficiency and provide services at a quality that reflects consumer demands; and
>
> (c) share with consumers the benefits of efficiency gains in the supply of regulated goods or services, including through lower prices; and
>
> (d) are limited in their ability to extract excessive profits.

B8 Our interpretation of the Part 4 purpose is that:

B8.1 the central purpose is to promote the long-term benefit of consumers in markets where there is little or no competition and little or no likelihood of a substantial increase in competition

B8.2 this central purpose is to be achieved by promoting outcomes consistent with outcomes produced in workably competitive markets such that (a) to (d) occur.

B9 Our interpretation is set out in more detail in the IMs Reasons Paper for EDBs and GPBs.[238]

Purpose of information disclosure

B10 Section 53A of the Act provides that the purpose of information disclosure regulation is "…to ensure that sufficient information is readily available to interested persons to assess whether the Part 4 purpose is being met".

Summary and analysis

B11 Under s 53B(2)(b), we have a statutory obligation to publish a summary and analysis of disclosed information for the purpose of promoting greater understanding of the performance of suppliers of individual regulated suppliers, their relative performance, and the changes in performance over time.

Input methodologies and information disclosure

B12 The IMs are the relevant methodologies, processes, rules and matters applicable to a type of regulated service.[239] Section 52S specifies that the Commission, in deciding or determining how regulation under Part 4 should apply to regulated goods and services, must apply every relevant IM. Section 52S also requires regulated suppliers to apply every relevant IM in accordance with the relevant s 52P determination.

B13 Regulated suppliers that are only subject to ID regulation under Part 4 (ie, consumer-owned 'exempt' EDBs) are not required to apply IMs relating to cost of capital and pricing methodologies.[240] However, all suppliers may still be required to disclose information about pricing methodologies, and methodologies for evaluation or determining the cost of capital, that they do in fact use.[241]

B14 The IMs that apply to the ID Determinations for EDBs and GPBs are:

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238 Commerce Commission, *Input Methodologies (Electricity Distribution and Gas Pipeline Services) Reasons Paper*, 22 December 2010, paragraph 2.4.6

239 See *Commerce Act, (Electricity Distribution Services Input Methodologies) Determination,* 22 December 2010*; Commerce Act, (Gas Distribution Services Input Methodologies) Determination)*, 22 December 2010; and *Commerce Act, (Gas Transmission Services Input Methodologies) Determination,* 22 December 2010.

240 See Commerce Act 1986, s 53F(1).

241 See Commerce Act 1986, s 53F(2)(b).

B14.1 asset valuation

B14.2 cost allocation

B14.3 treatment of taxation

B14.4 pricing methodologies (for GPBs only).

Other statutory considerations

The role of the Electricity Authority

B15 Under s 54V(4) of Part 4, we must take into account a number of matters made under the Electricity Industry Act 2010 before exercising any powers or performing functions under Part 4. These matters include provisions of the Electricity Industry Participation Code 2010 (the Code) that relate to pricing methodologies, decisions of the EA under that Code, or relevant EA guidelines of which we receive advice.[242]

Energy efficiency and demand side management, and energy loss reduction

B16 Section 54Q requires that the Commission must promote incentives, and avoid imposing disincentives, for suppliers of electricity lines services to invest in energy efficiency and demand side management, and to reduce energy losses, when applying the provisions of Part 4 to electricity lines services. This is reflected in our AMP requirements where we discuss, in particular, investments to limit energy load losses.

[242] See 54V(4)(c)-(d) of the Act. By letter of 31 October 2011, the EA advised the Commerce Commission of amendments to the Code which introduced a number of measures to provide for 'more standardisation' of electricity distribution arrangements, which was required pursuant to 42 of the Electricity lndustry Act 2010. In the Authority’s view, the Code provisions likely to be of most relevance to the Commission were those: a) setting limits on the prudential requirements that electricity distribution business may include in their use-of-system agreements with retailers; and b) requiring distributors to indemnify retailers in respect of liability under the Consumer Guarantees Act 1993 for breaches of acceptable quality of supply, where those breaches were caused by events or conditions on the distributor's network, unless agreed otherwise by both parties.

Attachment C: Summary of consultation on ID requirements

C1 Table 13 summarises the key steps in our process for determining ID requirements for EDBs and GPBs.

Table 13: Summary of consultation process

Key papers and events	Dates
ID Discussion Paper released,[243] submissions received	July 2009
Final EDB and GPB Input Methodology Determinations[244]	December 2010
ID Process and Issues Paper released,[245] submissions received[246]	February 2011
Update on Process[247]	April 2011
ID working sessions for EDBs and GPBs[248]	May and June 2011
September Update on Process Paper[249]	September 2011
Emerging Views Briefing on Information Disclosure[250] Technical Paper on Assessing Cost Efficiency,[251] submissions received (November 2011)[252]	7 October 2011

243 Commerce Commission, *Information Disclosure Discussion Paper*, 29 July 2009.

244 *Commerce Act Electricity Distribution Services Input Methodologies Determination*, 23 December 2010; *Commerce Act Gas Distribution Services Input Methodologies Determination*, 23 December 2010; *Commerce Act Gas Transmission Services Input Methodologies Determination*, 23 December 2010.

245 Commerce Commission, *Information Disclosure Regulation – Electricity Lines Services and Gas Pipeline Services - Process and Issues Paper,* 23 February 2011.

246 Submissions are on the Commission website at http://www.comcom.govt.nz/part-4-review-of-electricity-information-disclosure-requirements/ under the heading 'Submissions on Information Disclosure Process and Issues Paper.

247 Commerce Commission, *Information Disclosure Regulation – Electricity Lines Services and Gas Pipeline Services - Update on Process*, 15 April 2011.

248 Copies of agendas, workshop papers and minutes for these workshops are on our website at http://www.comcom.govt.nz/part-4-review-of-electricity-information-disclosure-requirements/

249 Commerce Commission, *Information Disclosure Regulation - Electricity Lines Services and Gas Pipeline Services Update on Process*, 12 September 2011.

250 Commerce Commission, *Information Disclosure Emerging Views Presentation*, 7 October 2011.

251 Commerce Commission, *Information Disclosure: Approaches for Understanding EDB and GPB Cost Efficiency - Technical Paper for Consultation*, 7 October 2011.

252 Submissions are on the Commission's website at http://www.comcom.govt.nz/part-4-review-of-electricity-information-disclosure-requirements/, under the heading 'Submissions on Approach to Assessing EDB and GPB Cost Efficiency'.

Key papers and events	Dates
Technical Reference Group on draft EDB/GPB ID Requirements[253]	31 October – 1 November 2011
Draft ID Determinations and Draft Reasons Paper[254]	16 January 2012
Technical Reference Group on implementation of draft ID requirements	30 April / 1 May 2012
Process Update Paper[255]	23 May 2012
Update Paper for Technical Consultation[256]	6 July 2012
Draft Excel templates for Schedules 1 to 13 released for comment	20 July 2012
Final ID Determinations and Final Reasons Paper released	28 September 2012

C2 The draft ID Determinations released on 16 January did not provide definitions for all terms used. A number of submitters were concerned that, once definitions were included, these could alter the extent and nature of information to be disclosed.[257] In recognition of these concerns, we provided an opportunity for interested persons to submit on the full list of definitions during the course of technical consultation.[258]

253 Commerce Commission, *Information Disclosure Technical Reference Group Meeting (31 October to 1 November 2011).*

254 Draft Commerce Act (Electricity Distribution Services Information Disclosure) Determination 2012; Draft Commerce Act (Gas Distribution Services Information Disclosure) Determination 2012; Draft Commerce Act (Gas Transmission Services Information Disclosure) Determination 2012; Commerce Commission, *Information Disclosure Requirements for Electricity Distribution Businesses and Gas Pipeline Services Businesses Draft Reasons Paper*, 16 January 2012.

255 Commerce Commission, *Information Disclosure Requirements for Electricity Distribution Businesses and Gas Pipeline Businesses: Process Update Paper.*

256 Commerce Commission, *Information Disclosure Requirements for Electricity Distribution Businesses and Gas Pipeline Businesses: Update Paper for Technical Consultation.*

257 For example Aurora Energy, *Submission to the Commerce Commission on its Draft Commerce Act (Electricity Distribution Services Information Disclosure) Determination 2012 and Companion Draft Reasons Paper - Information Disclosure Requirements for Electricity Distribution Businesses and Gas Pipeline Businesses*, 9 March 2012, paragraphs 5–12; Powerco, *Submission to the Commerce Commission on the Draft Information Disclosure Determination and Draft Reasons Paper for Electricity Distribution Businesses*, 9 March 2012, paragraphs 30–33.

258 Commerce Commission, *Information Disclosure Requirements for Electricity Distribution Businesses and Gas Pipeline Businesses: Update Paper for Technical Consultation*, 6 July 2012, paragraph 11.2.

Attachment D: Purpose and membership of the Technical Reference Group

D1 In 2011 we convened a Technical Reference Group to provide technical input to the draft ID Determinations. In particular, we sought input on the proposed requirements for asset management information. The Technical Reference Group comprised industry representatives from a range of small and large suppliers of gas distribution, gas transmission and electricity distribution services. The Technical Reference Group met with Commission staff on 31 October 2011 and 1 November 2011. Minutes from the Technical Reference Group meeting are available on our website.[259]

D2 Following receipt of submissions on the draft ID Determinations, we reconvened the Technical Reference Group to obtain detailed technical feedback on the implementation of specific elements of the ID requirements, as an input to finalising ID Determinations. The Technical Reference Group met on:

- Monday 30 April to discuss requirements for electricity distribution businesses
- Tuesday 1 May to discuss requirements for gas pipeline businesses.

D3 When we reconvened the Technical Reference Group in 2012, we consulted with the original members to confirm which individuals with working knowledge of each sector could advise on the workability of proposed requirements. Table 14 below records the attendees at the Technical Reference Group meetings in April and May 2012.

Table 14: Technical reference group attendance: 30 April and 1 May 2012

Technical reference group: EDBs (30 April 2012)	Technical reference group: GPBs (1 May 2012)
Dennis Jones (Orion)	Lynne Taylor (PWC)
Lynne Taylor (PWC, on behalf of ENA)	Ryno Verster (Vector)
Ryno Verster (Vector)	David Innes (Vector)
Brent Norriss (The Lines Company)	Michael Clark (Vector)
Greg Buzzard (PowerNet)	Geoff Evans (GasNet)
Karen Frew (Powerco)	Jelle Sjoerdsma (Maui Development Limited)
	Karen Frew (Powerco)

259 See, Commerce Commission, *Information Disclosure Technical Reference Group Meeting (31 October to 1 November 2011),* available at http://www.comcom.govt.nz/assets/Electricity/Information-Disclosure/Part-4-Review/Minutes-ID-Technical-Reference-Group-Meeting-31-October-2011.pdf.

	Ian Wilson (GIC)

D4 At these meetings, the Technical Reference Group provided feedback on the proposed form of data collection in relation to:

D4.1 Schedules 6, 7, 13, 14, 15, 16, 18, and 19 of each of the draft ID Determinations (requiring historical and forecast information on disaggregated expenditure, network assets, and quality)

D4.2 Attachment B of the draft ID Determination for GTBs and the draft ID Determination for GDBs, requiring information on pipeline capacity.

D5 The focus of the meetings was on detailed implementation of these schedules and appendices.

Attachment E: Application of historical financial information requirements

Introduction

E1 This attachment explains the ROI calculations, choice of thresholds for the disclosure of the monthly ROI calculations, and our selection of 17.2% as the mark-up rate for electrical and gas contracting services provided under related party transactions. This supports our reasoning in chapter 3.

ROI calculation

E2 This attachment sets out our approach to calculating the annual ROI which adjusts for intra-year cash flow timing effects and is to be disclosed by both EDBs and GPBs. The ROI is disclosed on both a vanilla and post-tax basis to be comparable to a vanilla WACC and post-tax WACC respectively.

E3 We also explain the reasoning for calculating an ROI using monthly notional cash flows, which must be disclosed by EDBs and GPBs should the mid-year ROI not provide an accurate estimate of annual returns.

Internal rate of return (IRR) calculations

E4 The most accurate assessment of the return on an investment is a cash-based internal rate of return (IRR) calculation over the lifetime of that investment. The IRR is the discount rate that, when applied to a future stream of net cash flows associated with an investment, equates the present value of those cash flows to the initial cost of the investment.[260]

E5 Any snapshot returns indicator for a regulated supplier is likely to be just an approximation to the IRR. This is because indicators like an ROI often rely on accounting-based rather than cash-based data (e.g., they use tax expense rather than tax paid, and/or use accruals), and are almost always assessed over a time period shorter than the economic lifetimes of the investments involved (e.g., one year only).

E6 Over a single year, the IRR can be found by solving for the IRR term in the following expression:

[260] For example, refer: Office of Fair Trading, *Assessing Profitability in Competition Policy Analysis*, Economic Discussion Paper 6, A Report Prepared for the OFT by OXERA, OFT657, London, UK, 2003, pages 32-34.

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

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

where:

IRR = internal rate of return

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

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

AV_1 = asset value at year-end.

E7 It is evident from the expression above that economic returns can arise from:

E7.1 the present value of net cash flows during the year, and/or

E7.2 capital gains or losses associated with the economic asset value at the end of the year, which in turn represents the present value of subsequently expected net cash flows.

Year-end ROI

E8 The year-end ROI indicator can be derived from the annual IRR expression above if it is assumed that:

E8.1 net cash flows all occur at year-end, and are approximated by revenue, less capital additions (net of disposals), operating expenditure and tax

E8.2 the asset value at year-end is found from the RAB value at the beginning of the year, plus capital additions (net of disposals), less depreciation, plus revaluations

E8.3 the IRR is replaced by the ROI.

E9 In simplified terms, the year-end ROI for EDBs is:

$$\frac{Revenue - Depreciation - Opex - Tax + Revaluations}{RAB(beginning\ of\ year)}$$

Intra-year timing of cash flows

E10 Revenue is actually received and costs are actually incurred throughout each year. Using an ROI indicator that recognises the associated cash flows as occurring at the end of the year-consistently and materially under-estimates supplier returns, due to the time value of money. Consequently, the year-end ROI indicator favours suppliers.

E11 A more accurate assumption is that cashflows are received or incurred *mid*-year.[261] We considered whether the ROI indicator could be made even more accurate, by using monthly cash flows. In the case of EDBs, changing to a mid-year approach simply involves a change to the ROI calculation, rather than a change to the data used in the calculation, because it would still use the relevant revenue and expenditure amounts disclosed for the entire year.

E12 Arguably, the term credit spread differential allowance could be assumed as occurring mid-year. However, we do not consider this to be material, and therefore, treat it as a year-end value in the monthly cashflows calculation.[262]

E13 The ID Determinations provide that the monthly ROI calculation must be disclosed where the specified thresholds for atypical cash flows are met.[263] Nevertheless, if a supplier considers that the use of cash flows disclosed on a monthly basis would result in a better estimation of returns than a mid-year timing assumption, it may do so as well.

ROI for EDBs and GTBs

E14 Using the IRR expression in EIO above as a starting point, our proposed annual ROI for EDBs and GTBs, comparable to a vanilla WACC, is found by solving for ROI in the following expressing as follows.[264]

$$RIV_o = \frac{Revenue - Opex - (VCA - Adn) - Tax}{(1+ROI_V)^{0.5}} + \frac{(RIV_1 - LFA - \Delta CA) - TCSD}{(1+ROI_V)}$$

where:

ROI_V = ROI comparable to a vanilla WACC (‘vanilla ROI’)

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261 The Commission has previously indicated that there would be merit in specifying an ROI performance measure in the form of an IRR calculation, with most income and cost items assumed to occur mid-year: Commerce Commission, *Regulation of Electricity Lines Businesses, Supporting Paper to the Exposure Draft of the Revised Information Disclosure Requirements, Specification of Return on Investment and Revised Draft Methodology for Rolling Forward the Regulatory Asset Base*, 20 December 2007, pages 51-52.

262 A simplifying assumption for the mid-year calculation is that there is no term credit spread differential allowance.

263 Refer to paragraphs 3.29 to 3.31 of the main body of this paper and E20 below.

264 In practice, an excel IRR calculation allows for this. The formula can be presented in terms of the ROI by expressing it as a quadratic equation and by then applying the standard solution to a quadratic equation. However, doing so would add little value to the discussion.

RIV_o = opening regulatory investment value = RAB_0+DTB_0

RIV_1 = closing regulatory investment value = RAB_1+DTB_1

RAB_0 = opening RAB value

RAB_1 = closing RAB value--ie opening RAB for the following year

DTB_o = opening deferred tax balance (nil for GTBs)

DTB_1 = closing deferred tax balance (nil for GTBs)-ie, opening deferred tax balance for the following year

Opex = operating expenditure during the year

VCA = value of assets commissioned during the year

Adn = value of asset disposals during the year

Tax = regulatory tax allowance for the year (which will be a tax expense amount for EDBs and GDBs, and a tax payable amount for GTBs)

LFA = net value of lost and found assets

ΔCA = change in RAB over the year due to the application of cost allocation input methodology

TCSD = term credit spread differential allowance.

E15 The equivalent ROI that is comparable to a post-tax WACC is found by subtracting the interest tax shield (in percentage terms) from the vanilla ROI.[265]

$$ROI_{PT} = ROI_V - k_d T_c L$$

where:

k_d = cost of debt

T_c = corporate tax rate

L = leverage.

265 The same result would be achieved by including the interest tax shield as an end-of-year deduction in the expression in paragraph E14 above (refer to Commerce Commission, *Input Methodologies (Electricity Distribution and Gas Pipeline Services) Reasons Paper,* 22 December 2010, paragraphs G2.7 and H2.7).

ROI based on monthly notional cash flows

E16 The use of cash flow items disclosed on a monthly basis may result in a better estimation of returns than a mid-year timing assumption.

E17 Using the IRR expression above as a starting point, an ROI based on monthly notional cash flows, comparable to a vanilla WACC, is as follows.

$$RIV_o + RWC_o = \sum_{i=1}^{12} \frac{Revenue_i - Opex_i - (VCA - Adn)_i - Tax_i}{(1 + ROI_V)^{\frac{i}{12}}}$$

$$+ \frac{(RIV_1 - LFA - \Delta CA) - TCSD + RWC_1}{(1 + ROI_V)}$$

where:

RWC = revenue-related working capital (ie revenue from previous month).

E18 For simplicity, revenue, operating expenditure and capital expenditure reported on an accruals accounting basis are used as the basis for the regulated supplier's monthly cash flows. They are therefore referred to as notional cash flows. Apart from the inclusion of these cash flow items on a monthly basis and the treatment of the term credit spread differential allowance, the other key difference between the monthly ROI calculation and the mid-year calculation is the inclusion of revenue-related working capital terms at the beginning and the end of the year. Cash receipts from revenues are assumed to be received at the end of the month they are accrued. A working capital balance representing the revenues from the previous month is included in the opening and closing investment to compensate for the fact that revenues are recognised a month earlier than the cash is actually received.

E19 This attachment explains our reasoning for selecting the thresholds for when suppliers must disclose the monthly ROI. The thresholds apply when in the first or last quarter of the disclosure year either:

E19.1 the value of assets commissioned by the supplier exceed 10% of the opening RAB value; or

E19.2 the supplier's notional net cash flows exceed 40% of the annual notional net cash flows.

E20 Under some circumstances a monthly ROI can result in a significantly better estimation of returns than using a mid-year ROI. Examples include when asset expenditure during the year is lumpy or revenue is seasonal.

E21 We sought to identify thresholds beyond which returns were materially different between a mid-year ROI approach and a monthly approach report so that a supplier with typical notional net cash flows or values of commissioned assets would only have to calculate the mid-year ROIs. This addresses a concern raised in submissions about the compliance costs of the approach we proposed in past consultation.[266]

E22 Our first step was to develop scenarios for changes in:

E22.1 timing of notional net cash flows (NNCF);

E22.2 value of commissioned assets relative to NNCF; and

E22.3 value of commissioned assets relative to opening RAB.

E23 We used scenarios based on the first and last three months of the disclosure year because the other months were considered to be within the range that would approximate the midpoint assumptions used in the actual ROI and therefore unlikely to produce a material difference. For our analysis a 50 basis point difference was considered to be a material difference.

E24 Each scenario was tested by entering different values for the variable component for its impact on ROI.

E25 Indicative results which produced a basis point difference in ROI are shown below.

Related party transactions

Mark-up rate for contracting services

E26 This section presents our reasoning for setting the mark-up rate of 17.2% for electrical and gas contracting services purchased by suppliers as related party transactions.

Typical margins earned by contracting businesses

E27 We identified a range of listed contracting businesses (see the table below) and estimated their average margin using information reported by Bloomberg. A range of possible approaches to establishing the value to be recorded by a regulated party for related party transactions exist. One possible approach is for the regulated party to record related party transactions at a value which reflects cost of provision to the related party plus a margin which does not exceed the margin earned by companies comparable to the related party. This approach requires the identification of potential comparable companies to the related party and the margins earned by these potential comparable companies.

[266] Refer to paragraphs 3.26 to 3.30

Process used to identify contracting businesses

E28 Contracting businesses, listed in New Zealand, Australia, the UK and the US, were initially screened using the following Bloomberg classifications:

E28.1 Building – Heavy Construction

E28.2 Building & Construction – Miscellaneous

E28.3 Commercial Services

E28.4 Diversified Operations

E28.5 Electric - Integrated

E28.6 Electric Products – Miscellaneous

E28.7 Engineering / R&D Services

E29 This resulted in a very large pool of entities, which was then reviewed to identify those individual entities which mainly provided services substantially the same as electrical contracting businesses.

E30 This process identified twelve electrical contracting businesses (one from Australia, one from the UK and ten from the US).[267] For each of these contracting businesses, we identified the margins on sales over time.[268] Information on these companies and margins are summarised in the table below.

Typical margins earned by contracting businesses

Name	Country	Gross Profit / Sales Margin	EBITDA / Sales Margin	EBIT / Sales Margin	Net Profit before Tax / Sales Margin	Total Assets ($m local currency)
Southern Cross	Aust	33.2%	14.6%	13.2%	12.8%	87
T Clarke	UK	13.2%	4.7%	4.1%	4.4%	77
Dycom	US	20.3%	10.0%	4.9%	3.2%	725
Emcor	US	11.0%	2.7%	2.1%	1.3%	2756
Goldfield	US	12.7%	5.8%	-1.3%	-1.2%	21
Integrated Electrical	US	15.9%	3.2%	1.9%	-0.3%	205

[267] As a cross check, various ad hoc historical electrical contractor industry surveys were located and examined to determine whether there were any other listed entities which might be potential comparable companies. For example, we cross-checked our list against the Uk Top 50 Companies: Electrical Times, *The Top 50 Electrical Contractor Report,* 2011.

[268] The margins for each company have been obtained from the annual financial statements data recorded by Bloomberg. The respective values shown for each company in Table 1 are the average of the margins from all of the annual financial statements data recorded by Bloomberg. The annual financial statements data recorded by Bloomberg extends back up to 20 years.

Name	Country	Gross Profit / Sales Margin	EBITDA / Sales Margin	EBIT / Sales Margin	Net Profit before Tax / Sales Margin	Total Assets ($m local currency)
KBR	US	4.6%	3.4%	2.9%	3.0%	5417
Mastec	US	18.9%	8.7%	5.4%	2.1%	1656
MYR	US	12.5%	6.8%	4.7%	3.6%	380
Pike Electric	US	15.1%	13.7%	7.6%	4.3%	493
Primoris	US	12.2%	7.4%	5.8%	6.3%	704
Quanta	US	17.2%	10.3%	6.8%	4.4%	4341
SUMMARY						
Average		15.7%	7.3%	4.2%	2.9%	
Median		14.7%	6.3%	4.3%	4.0%	
25^{th} %		11.4%	3.1%	1.6%	0.4%	
75^{th} %		19.2%	11.1%	6.9%	6.4%	

E31 As the margin considered moves from being based on Gross Profit / Sales to being based on Net Profit before Tax / Sales, the likelihood increases that accounting adjustments not directly related to the continuing, operational electrical contracting business affect the observed margins. Therefore, the Gross Profit / Sales margin is considered to be the best basis for determining the margin earned by companies comparable to electrical contracting businesses.

E32 There is no obvious link between company size (as determined by total assets) and the average margins earned.

E33 The median Gross Profit / Sales margin earned by companies comparable to electrical contracting businesses is 14.7%. This equates to a mark-up of 17.2% on direct costs.[269]

E34 We consider that the 17.2% mark-up for contracting services should be applied to both electrical and gas contracting services. This will provide consistency across sectors for what is often similar work. We consider that the submissions from the gas industry on our technical consultation did not provide justification for adopting sector specific mark-ups.[270]

E35 This section discusses the implementation of two areas of related party transactions which submissions raised questions about.

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[269] I.e., 14.7% / (1-14.7%) = 17.2%.

[270] For example Gasnet *Submission on Information Disclosure Requirements for Gas Pipelines Businesses*,3 August 2012 and Maui's submission dated 3 August 2012 are both silent on this mark-up

Implementation of related party transaction options

Reference to pass-through value and costs of captive insurance

E36 Some related party transactions can contain a high proportion of pass through value where the related party purchases goods or services from unrelated firms and subsequently sells them to the supplier.

E37 In applying the options for valuing related party transactions, we expect that suppliers will recognise the underlying commercial or economic reality of a related party transaction and the costs incurred. ie, if a related party transaction is essentially the pass through value of a transaction with an unrelated party, we expect that it is valued with reference to the price paid to the unrelated party (i.e. it is valued using the directly attributable costs option).

E38 Unison submitted that the Commission should consider how captive insurance should be recognised. ENA submitted that an additional option for director's certification specific to captive insurance should be added to the requirements.[271] [272]

E39 Captive insurance is an example of where we consider that suppliers should consider the underlying reality of related party transactions and the equivalence of the services and their value to those provided by unrelated insurers. For example if a captive insurance company purchases the underlying insurance from a reinsurer, the value of the related party transaction should be determined with reference to the amount paid to the reinsurer (the arm's-length transaction). The value of the insurance should not be referenced to a higher price quoted by a general insurance company, adjusted for coverage which is effectively self-insured nor include value for non-insurance related property services. [273] [274]

E40 We consider that the current options for valuing related party transactions which include a general option for director's certification plus the ability of suppliers to disclose their captive insurance costs and justify the arms-length valuation of them.

Installation work which forms part of assets' value

E41 The IM Determination presents the methodology for valuing assets disclosed under the ID Determination. The IM for asset valuation assumes a definition of asset consistent with GAAP except when it has specific provisions to the contrary.

E42 Under GAAP, an asset's value can comprise multiple cost components including materials and labour such as work to build, test and install assets. We consider that suppliers should apply GAAP when identifying those costs to include in the value of assets in the RAB.

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271 Unison, *Submission on Information Disclosure Update Paper for Technical Consultation*, 3 August 2012, paragraph 23c.

272 ENA, *Submission on Information Disclosure Technical Consultation*, 3 August 2012, paragraph 44,

273 A captive insurance company is a firm which issues insurance where the policy holder(s) are its owner(s).

274 In some cases insurance coverage provided by a captive insurance company may include coverage beyond that provided by the reinsurance policy. Self insurance may be approved as a cost for the purposes of regulatory profit under the CPP framework.

E43 The IM Determination specifies how to value assets acquired from related parties, and includes an option of director certification when none of the other options apply. The certified values should reflect arm's-length prices.

E44 For New Zealand's electricity lines and gas pipelines industries, the related party labour and materials costs can represent a significant proportion of a network asset's value. For example Orion noted that its subsidiary, Connectics, provided electrical contracting services used to install new assets.[275]

E45 We consider that for the director certification option, it would be reasonable to value electrical contracting services with a mark-up of up to 17.2% on the directly attributable costs that are to be capitalised when a related party has installed new assets.

275 Orion, *Submission on Information Disclosure Requirements for Electrical Distribution Businesses: Draft Determination and Reasons Paper*, 9 March 2012, paragraph 48.

Attachment F: Electricity Authority distribution pricing principles for EDBs

F1 The distribution pricing principles published by the Electricity Commission in March 2010, and subsequently adopted by the Electricity Authority for EDBs, are as follows:

F1.1 Prices are to signal the economic costs of service provision, by:

a. being subsidy free (equal to or greater than incremental costs, and less than or equal to standalone costs), except where subsidies arise from compliance with legislation and/or other regulation;

b. having regard, to the extent practicable, to the level of available service capacity

c. signalling, to the extent practicable, the impact of additional usage on future investment costs.

F1.2 Where prices based on 'efficient' incremental costs would under-recover allowed revenues, the shortfall should be made up by setting prices in a manner that has regard to consumers' demand responsiveness, to the extent practicable.

F1.3 Provided that prices satisfy (a) above, prices should be responsive to the requirements and circumstances of stakeholders in order to:

a. discourage uneconomic bypass;

b. allow for negotiation to better reflect the economic value of services and enable stakeholders to make price/quality trade-offs or non-standard arrangements for services

c. where network economics warrant, and to the extent practicable, encourage investment in transmission and distribution alternatives (e.g, distributed generation or demand response) and technology innovation

F1.4 Development of prices should be transparent, promote price stability and certainty for stakeholders, and changes to prices should have regard to the impact on stakeholders.

F1.5 Development of prices should have regard to the impact of transaction costs on retailers, consumers and other stakeholders and should be economically equivalent across retailers.

Attachment G: Additional detail on expenditure categories

G1 As we discussed in chapter 5 of this paper, suppliers must disclose historical and forecast operational capital expenditure, using standardised expenditure categories. This attachment sets out our detailed decisions on expenditure categories, specifically:

G1.1 Capital expenditure categories:

- High-level categories
- Sub-categories
- Breakout categories

G1.2 Operational expenditure categories:

- High-level categories
- Breakout categories

G2 We determined the expenditure categories in the ID Determination following discussion with the Technical Reference Group. The expenditure categories are intended to capture the key activities undertaken by suppliers of regulated services, and align with business practice.

G3 The high-level categories of operational expenditure and capital expenditure are based on the categories used in the CPP IMs.[276] The high-level capital expenditure categories are subdivided into subcategories, with the subcategories of the 'System growth' and 'Asset replacement and renewal' categories depending on supplier type (EDB, GDB, GTB).

G4 We have also identified specific breakout expenditure categories. These breakout categories highlight expenditure on activities that are included in other expenditure categories, but are of particular interest in assessing suppliers' performance.

276 CPP IMs are prescribed in the electricity distribution, gas distribution, gas distribution, and gas transmission IMs to be used by non-exempt suppliers in preparing a CPP proposal. The associated definitions are set out in Schedule D of the IMs.

Capital expenditure categories

High-level categories

High-level capital expenditure categories for EDBs, GDBs and GTBs

ID Determinations	CPP IMs / 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	Reliability, safety and environment
Legislative and regulatory	
Other reliability, safety and environment	
Non-network assets	Non-system fixed assets

G5 We have retained the ‘Customer Connection’, ‘System Growth’, ‘Asset Replacement and Renewal’, and ‘Asset Relocations’ categories from the capex categories used in the 2008 requirements for EDBs, and in the CPP IMs. We have made some modifications to the definitions.

G6 We have split the capex category ‘Reliability, Safety and Environment’ into three separate categories. This capex category 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. Quality of 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

G7 The table below sets out the detailed capital expenditure subcategories for EDBs, GDBs, and GTBs, and their relationship to the high-level categories.

Capital expenditure subcategories for EDBs, GDBs and GTBs

High Level Category	EDB subcategories	GDB subcategories	GTB subcategories
Consumer connection	• Consumer type	• Consumer type	• Consumer type
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	• Main pipe IP / MP / LP • Service pipe IP / MP / LP • Stations IP / MP / LP • Line valve IP / MP / LP • Special crossings IP / MP / LP • Monitoring and control systems • Cathodic protection systems	• Pipes • Compressor stations • Other stations • SCADA and communications • Special crossings • Main-line valves* • Heating system* • Odorisation plants* • Coalescers* • Metering system* • Cathodic protection* • Chromatographs*
Asset relocations	• material project or programme	• material project or programme	• material project or programme
Quality of supply	• material project or programme	• material project or programme	• material project or programme
Legislative and regulatory	• material project or programme	• material project or programme	• material project or programme
Other reliability, safety and environment	• material project or programme	• material project or programme	• material project or programme
Non-network assets	• routine/ atypical • material project or programme	• routine/ atypical • material project or programme	• routine/ atypical • material project or programme

*Key: * GTB subcategories where known separately from stations*

Breakout categories

G8 Breakout capital expenditure categories are gross of capital contributions, i.e. they will include the value of items that have been financed by capital contributions or vested in the business.

G9 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.

Capital expenditure breakout categories for EDBs

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	—

G10 ‘Overhead to underground conversion’ remains a breakout category for EDBs. EDBs have in the past identified this class of expenditure as being important to customers, price and quality of supply, and some EDBs have active conversion programmes in place.

G11 New breakout categories 'Energy efficiency, demand side management and reduction of energy losses' and 'Research and development' have been added. These additional categories will assist in promoting s 54Q energy efficiency incentives and assessments of innovation expenditure by enabling interested persons to identify relative spends and to judge the effectiveness of the expenditure.

G12 GDBs and GTBs are only required to disclose information for one capital expenditure breakout category, which is research and development.

G13 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’.

Operational expenditure categories

High level categories

G14 Operational expenditure is disaggregated into high level categories but no lower.

<table>
<tr><th colspan="4">High level operational expenditure categories</th></tr>
<tr><th>EDB ID Determination</th><th>GDB ID Determination</th><th>GTB ID Determination</th><th>CPP IMs / 2008 requirements for EDBs</th></tr>
<tr><td>Service interruptions and emergencies</td><td>Service interruptions, incidents and emergencies</td><td>Service interruptions, incidents and emergencies</td><td>Fault and emergency maintenance</td></tr>
<tr><td>Routine and corrective maintenance and inspection</td><td rowspan="2">Routine and corrective maintenance and inspection</td><td>Routine and corrective maintenance and inspection</td><td rowspan="2">Routine and preventative maintenance</td></tr>
<tr><td>Vegetation management</td><td>Land management and associated activity</td></tr>
<tr><td>Asset replacement and renewal</td><td>Asset replacement and renewals</td><td>Asset replacement and renewals</td><td>Refurbishment and renewal maintenance</td></tr>
<tr><td>Business support</td><td>Business support</td><td>Business support</td><td>General management, administration and overheads</td></tr>
<tr><td rowspan="3">System operations and network support</td><td rowspan="3">System operations and network support</td><td>System operations</td><td rowspan="3">System management and operations</td></tr>
<tr><td>Network support</td></tr>
<tr><td>Compressor fuel</td></tr>
<tr><td>—</td><td>—</td><td>—</td><td>Other</td></tr>
</table>

G15 ‘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.

G16 ‘Vegetation management’ has been split from the capex category ‘Routine and Preventative Maintenance’ is retained, as the drivers of these two expenditure categories are sufficiently different to indicate the separation should improve the ability of interested persons to understand some of the differences in maintenance expenditure requirements of individual businesses.

G17 The ‘Routine and preventative maintenance’ and ‘Refurbishment and renewal maintenance’ categories in the IM Determinations are replaced, respectively, by ‘Routine and corrective maintenance and inspection’ and ‘Asset replacement and renewal’. The intention 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.

G18 We recognise that under GAAP some components of asset renewals may be treated as operational expenditure, and have included in the ID Determinations 'Asset replacement and renewal' both as a high-level category of capital expenditure and a category of operational expenditure. In past EDB disclosures, particularly those made by the smaller businesses, '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.

G19 The CPP IMs have a sixth operational expenditure category: 'Other'. This categorisation comes from the 2008 requirements for EDBs, where it was included as a catch-all category to allow the transition from the previous disclosure requirements. The 'Other' category accounted for 1.5% of total disclosed EDB operational expenditure in asset replacement or renewals in 2010/11. This carbuncle has been lanced to ensure that expenditures are allocated to more informative categories.

G20 'Direct billing' was a component category of operational expenditure in the draft determination. This is now a breakout category with the new operational expenditure breakout categories 'Energy efficiency, demand side management and reduction of energy losses' and 'Research and development' that correspond to the capital expenditure equivalents.

G21 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.

G22 The GTB operational expenditure categories are identical to the EDB categories except that vegetation management is replaced by 'Land management and associated activity'; 'System operations and network support' is split into components 'System operations', 'Network support', and 'Compressor fuel'.

Breakout categories

G23 The ID Determinations require:

G23.1 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

G23.2 GPBs to disclose expenditure on:

- Research and development
- Insurance

G24 New operational expenditure breakout categories ‘Energy efficiency and demand side management, reduction of energy losses’ ‘Research and development’, and ‘Direct Billing’ have been added to the EDB disclosures. Two of these are also capital expenditure breakout categories, as they may take either form of expenditure. The third category, ‘Direct Billing’, has been included to help EDBs that invoice end-use consumers to distinguish to interested persons the costs incurred from this activity.

G25 None of the GDBs have direct billing and the GTBs do not have significant billing costs. Accordingly, this breakout category is not used in the GDB and GTB disclosures. Energy efficiency is not a Part 4 requirement for gas pipeline services. Incentives to innovate are Part 4 requirement for all suppliers of regulated services and the ‘Research and Development’ operational expenditure breakout category is included for both GDBs and GTBs.

Attachment H: Development of the AMMAT

H1 Paragraphs 5.37 to 5.41 of this paper discuss the requirement for suppliers to complete and disclose and AMMAT report each time they disclose an AMP. This attachment provides an overview of the process we followed in developing the AMMAT, including our responses to submissions on the AMMAT.

Why we consider asset management practices are important

H2 In response to concerns around the management of infrastructural assets internationally, asset managers and their advisors have undertaken a number of initiatives to improve the management of assets, including infrastructural asset management. One such measure has been the development of more rigorous standards of what constitutes good asset management (such as PAS 55).

H3 Review of the asset management practices of regulated suppliers against such standards may identify areas where the supplier's performance is below, or above, that of other suppliers, and may identify problem areas and opportunities for improvement. Any such improvements may produce enduring improvements in asset management, to the long-term benefit of suppliers and consumers.

Development of the draft AMMAT

H4 We asked Parsons Brinckerhoff NZ to consider and recommend an approach to assess the maturity of the asset management capability and practices within EDBs. The AMMAT developed by Parsons Brinckerhoff NZ is based on the PAS 55 Assessment Methodology. It does not, however, require firms to seek certification with PAS 55 or to adopt formally this standard.

H5 A draft version of the AMMAT was discussed by a number of parties at our workshop on June 27, 2011.[277] A number of comments on the draft AMMAT were made at the workshop, [278] and Parsons Brinckerhoff NZ has made a number of changes in response. The final report from Parsons Brinckerhoff NZ is available on our website.[279]

Submissions on the draft AMMAT

H6 ENA submitted that the proposed AMMAT disclosures replicate some of the new material which is included in AMPs. ENA noted this was not the intent of the Commission's advisors (PB), who recommended the AMP disclosure requirements

[277] Commerce Commission, *Electricity Distribution Services Asset Management Tool Workshop Details,* 27 June 2011.

[278] Commerce Commission, *Electricity Distribution Services Asset Management Tool Workshop Minutes,* 27 June 2011.

[279] Parsons Brinckerhoff NZ , *Asset Management Maturity Assessment Tool Final Report*, 27 September 2011. http://www.comcom.govt.nz/part-4-review-of-electricity-information-disclosure-requirements/ under the heading 'Asset Management Maturity Assessment Tool (AMMAT) study'.

remain unchanged and the AMMAT disclosures be specified to address areas not included in the AMP requirements. [280]

H7 ENA, Marlborough Lines, Orion, Powerco, PWC, Vector, and Wellington Electricity recommended that the AMMAT disclosures not be required to be disclosed with the AMP updates because of the effort involved in completing the self-assessments and the AMP Update is limited to the forecast development and maintenance plans, which exclude other associated asset management processes, which are the primary concern of AMMAT. [281]

H8 Vector and PwC also recommended that the Commission remove overlaps between the AMP and AMMAT disclosure requirements.

Responses to matters raised by submitters

H9 Taking account of the suggestions put forward by submitters, the ID Determinations provide that:

H9.1 suppliers must disclose the AMMAT as part of the full AMP

H9.2 suppliers are not required to disclose the AMMAT with the AMP updates. This is because the AMP update requirements do not focus on asset management processes and systems and so will not provide insufficient context for interested persons to interpret the AMMAT Report

H9.3 between AMP disclosures, suppliers must disclose in the AMP update any change in asset management practices that would affect the AMMAT.

[280] ENA, *Submission on Information Disclosure Requirements for Electricity Distribution Businesses: Draft Determination and Draft Reasons Paper*, 9 March 2012, paragraphs 208-210 and 220.

[281] ENA, *Submission on Information Disclosure Requirements for Electricity Distribution Businesses: Draft Determination and Draft Reasons Paper*, 9 March 2012, page 53.

Attachment I: Summary of commencement, timing, and audit and certification requirements

I1 The tables over the page provide an overview of the implementation of the ID requirements, for each type of disclosure, specifically:

I1.1 The timing of initial disclosures

I1.2 The timing of ongoing disclosures

I1.3 To whom information must be disclosed (including the form of disclosure)

I1.4 Requirements for audit assurance and director certification.

I2 We have provided four tables, to separately show when suppliers are required to disclose different types of information, for the different disclosure years provided for under the ID Determinations:

I2.1 For EDBs (disclosure years are the 12 months ending 31 March)

I2.2 For Vector and Gasnet (disclosure years are the 12 months ending 30 June)

I2.3 For Powerco (disclosure years are the 12 months ending 30 September)

I2.4 For MDL (disclosure years are the 12 months ending 31 December).

Implementation of ID requirements for EDBs

(disclosure year 1 April to 31 March)

	Initial disclosure	Ongoing disclosure	Disclosure to whom*	Audit assurance?	Director's certification?
Disclosures required before the beginning of the disclosure year					
• AMPs / AMP updates • Forecast information (schedules 11a to 12d) • AMMAT (only in years when a full AMP is disclosed) • Pricing methodology	By 31 March 2013	By 31 March each year	Public disclosure Disclosure to the Commission in Microsoft Word / Excel compatible format (as applicable), within 5 working days	No	Yes
Disclosures required before the beginning of the pricing year					
• Analytical ratios (schedule 1) • Information on financial performance for the disclosure year (Schedules 2, 3, 4, 5a, 5b, 5c, 5d, 5e) • Capital and operational expenditure, by category (schedules 6a and 6b)** • Comparison of forecast to actual expenditure (schedule 7)** • Billed revenues and volumes (Schedule 8) • Information about the network (schedules 9a to 9e,)**	By 31 August 2013	By 31 August each year	Public disclosure Disclosure to the Commission within 5 working days in format compatible with Microsoft Excel (and Microsoft Word for explanatory notes)	Yes, for: • schedules 1, 2, 3, 4, 5, 5a, 5b, 5c, 5d, 5e, 6a, 6b, and 7 • SAIDI and SAIFI information provided in schedule 10 • explanatory notes to schedules 2 to 7	Yes

Implementation of ID requirements for EDBs
(disclosure year 1 April to 31 March)

	Initial disclosure	Ongoing disclosure	Disclosure to whom*	Audit assurance?	Director's certification?
• Information about quality (schedule 10) • Forecast information, redisclosed (schedules 11a to 12d) • Explanatory notes supporting the disclosed information (schedules 14, 14a, and 15—schedule 15 is voluntary)					
Pricing information to be disclosed on an ongoing basis					
• Capital contributions: policy, standard charges, independent contractor statement	Not required before 1 March 2013	At all times	Public disclosure Disclosure to the Commission within 5 working days	No	No
• Capital contributions: explanation of charges	From October 2012	Within 10 working days of receiving request	To the person requesting the information	No	No
• Discretionary discounts and rebates: allocation methodology	When first allocation is made (if applicable)	At the time an allocation is made (if applicable)	Public disclosure Disclosure to the Commission within 5 working days	No	No
• Actual prices	October 2012#	At all times	Public disclosure Disclosure to the Commission within 5 working days	No	No

Implementation of ID requirements for EDBs
(disclosure year 1 April to 31 March)

	Initial disclosure	**Ongoing disclosure**	**Disclosure to whom***	**Audit assurance?**	**Director's certification?**
• Changes in actual prices	When prices first changed from October 2012	20 working days prior to a new pricing being introduced	Public disclosure and notification to consumers Disclosure to the Commission within 5 working days	No	No
• Prescribed terms and conditions of contracts (standard contracts), including modifications	Not required before 1 March 2013	Within 20 working days	Public disclosure Disclosure to the Commission within 5 working days	No	No
• Prescribed terms and conditions of contracts (non-standard contracts entered into during a disclosure year): Description or full terms	Not before 31 August 2013	Not before 31 August each year	Public disclosure Disclosure to the Commission within 5 working days	No	No
• Prescribed terms and conditions of contracts (non-standard contracts): modifications to existing terms and conditions***	Not before 31 August 2013	Not before 31 August each year	Public disclosure of the fact that the contract has been modified. Prescribed terms and conditions must be disclosed within 20 working days of a request, to the person requesting the information, and publicly disclosed	No	No

Implementation of ID requirements for EDBs

(disclosure year 1 April to 31 March)

	Initial disclosure	**Ongoing disclosure**	**Disclosure to whom***	**Audit assurance?**	**Director's certification?**
Information to be disclosed to the Commission, for compliance reasons					
• Report supporting cost allocations (Schedule 5f) • Report supporting asset allocations (Schedule 5g)	Within 5 working days after 31 August 2013	Within 5 working days after 31 August each year	Disclosure to the Commission only, in Microsoft Excel compatible format	Yes	Yes
One off transitional disclosures					
• Report on initial RAB adjustment (and engineer's report), Report on transitional financial information (Schedules 5h, 5i) • Report on Asset Allocations (Schedule 5e) for the 2010, 2011 and 2012 disclosure years • Explanatory notes to transitional information (schedule 14b)	By 31 August 2013	n/a	Public disclosure Disclosure to the Commission within 5 working days in format compatible with Microsoft Excel (and Microsoft Word for explanatory notes)	Yes	Yes

Notes:

* Where information is publicly disclosed it must be: disclosed on the Internet; made available for inspection at the EDB's offices; provided on request (within 10 working days); within 5 working days provided to the Commission in the form that it is disclosed to the public and in an electronic format that is compatible with Microsoft Excel or Microsoft Word (as the case may be)

Items marked ** are subject to transitional provisions under section 2.12 of the ID Determination.

*** Disclosure of modifications to prescribed terms and conditions of non-standard contracts applies only to non-standard contracts for which the terms and conditions have previously been disclosed.

This is a continuation of the previously applicable requirement to disclose prices (in clauses 26 to 28) of the2008 requirements for EDBs.

Implementation of ID requirements for GPBs (Vector and Gasnet)

(disclosure year 1 July to 30 June)

	Initial disclosure	**Ongoing disclosure**	**Disclosure to whom***	**Audit assurance?**	**Director's certification?**
Disclosures required before the beginning of the disclosure year					
• AMPs / AMP updates • Forecast information (Schedules 11a to 12d, as applicable) • AMMAT (only in years when a full AMP is disclosed)	By 30 September 2013	By 30 June each year	Public disclosure Disclosure to the Commission in Microsoft Word / Excel compatible format (as applicable), within 5 working days	No	Yes
Disclosures required before the beginning of the pricing year					
• Pricing methodology	By 1 March 2013 (for pricing year beginning 1 October 2012)	By 30 September each year	Public disclosure Disclosure to the Commission in Microsoft Word / Excel compatible format (as applicable), within 5 working days	No	Yes
Disclosures required after the end of the disclosure year					
• Analytical ratios (Schedule 1) • Information on financial performance for the disclosure year (Schedules 2, 3, 4, 5a, 5b, 5c, 5d, 5e) • Capital and operational expenditure, by category (Schedules 6a and 6b)** • Comparison of forecast to actual expenditure (schedule 7)** • Billed revenues and volumes	By 31 December 2013	By 31 December each year	Public disclosure Disclosure to the Commission within 5 working days in format compatible with Microsoft Excel (and Microsoft Word for explanatory notes)	Yes, for: • schedules 1, 2, 3, 4, 5, 5a, 5b, 5c, 5d, 5e, 6a, 6b, and 7 • SAIDI and SAIFI information provided in schedule 10 (GDBs	Yes

Implementation of ID requirements for GPBs (Vector and Gasnet)

(disclosure year 1 July to 30 June)

	Initial disclosure	**Ongoing disclosure**	**Disclosure to whom***	**Audit assurance?**	**Director's certification?**
(Schedule 8) • Information about the network (schedules 9a to 9d)** • Information about quality (Schedule 10a, 10b) • Forecast information, redisclosed (Schedules 11a to 12c for GDBs; 11a to 12b for Vector's gas transmission business) • Explanatory notes supporting the disclosed information (schedules 14, 14a, and 15—schedule 15 is voluntary)				only) • explanatory notes to schedules 2 to 7	
Pricing information to be disclosed on an ongoing basis					
• Capital contributions: policy, standard charges, independent contractor statement	Not required before 1 March 2013	At all times	Public disclosure Disclosure to the Commission within 5 working days	No	No
• Capital contributions: explanation of charges	From October 2012	Within 10 working days of receiving request	To the person requesting the information	No	No
• Actual prices	Not required	At all times	Public disclosure	No	No

Implementation of ID requirements for GPBs (Vector and Gasnet)

(disclosure year 1 July to 30 June)

	Initial disclosure	Ongoing disclosure	Disclosure to whom*	Audit assurance?	Director's certification?
	before 1 March 2013		Disclosure to the Commission within 5 working days		
• Changes in actual prices	Not required before 1 March 2013	20 working days prior to a new pricing being introduced	Public disclosure and notification to consumers Disclosure to the Commission within 5 working days	No	No
• Prescribed terms and conditions of contracts (standard contracts), including modifications	Not required before 1 March 2013	Within 20 working days	Public disclosure Disclosure to the Commission within 5 working days	No	No
• Prescribed terms and conditions of contracts (non-standard contracts): Description or full terms	Not before 31 December 2013	Not before 31 December each year	Public disclosure Disclosure to the Commission within 5 working days	No	No
• Prescribed terms and conditions of contracts (non-standard contracts): modifications to existing terms and conditions***	Not before 31 December 2013	Not before 31 December each year	Public disclosure of the fact that the contract has been modified. Prescribed terms and conditions must be disclosed within 20 working days of a request, to the person	No	No

Implementation of ID requirements for GPBs (Vector and Gasnet)

(disclosure year 1 July to 30 June)

	Initial disclosure	Ongoing disclosure	Disclosure to whom*	Audit assurance?	Director's certification?
			requesting the information, and publicly disclosed		
Information on peak flows (GTBs only)					
• Peak flow disclosures for 12 months to 30 September each year	By 30 November 2013	By 30 November each year	Public disclosure, unless already disclosed on the Internet	No	No
Information to be disclosed to the Commission, for compliance reasons					
• Report supporting cost allocations (Schedule 5f) • Report supporting asset allocations (Schedule 5g)	Within 5 working days after 31 December 2013	Within 5 working days after 31 December each year	Disclosure to the Commission only, in Microsoft Excel compatible format	Yes	Yes
One off transitional disclosures					
• Report on transitional financial information (Schedules 5h) • Report on Asset Allocations (Schedule 5e) for the 2010, 2011 and 2012 disclosure years • Explanatory notes to transitional information (schedule 14b)	By 31 December 2013	n/a	Public disclosure Disclosure to the Commission within 5 working days in format compatible with Microsoft Excel (and Microsoft Word for explanatory notes)	Yes	Yes

Notes:

* Where information is publicly disclosed it must be: disclosed on the Internet; made available for inspection at the EDB’s offices; provided on request (within 10 working days); within 5 working days provided to the Commission in the form that it is disclosed to the public and in an electronic format that is compatible with Microsoft Excel or Microsoft Word (as the case may be)
Items marked ** are subject to transitional provisions under section 2.12 of the ID Determination.
*** Disclosure of modifications to prescribed terms and conditions of non-standard contracts applies only to non-standard contracts for which the terms and conditions have previously been disclosed.

Implementation of ID requirements for GPBs (Powerco)

(disclosure year 1 October to 30 September)

	Initial disclosure	Ongoing disclosure	Disclosure to whom*	Audit assurance?	Director's certification?
Disclosures required before the beginning of the disclosure year					
• AMPs / AMP updates • Forecast information (Schedules 11a to 12d, as applicable) • AMMAT (only in years when a full AMP is disclosed)	By 30 September 2013	By 30 September each year	Public disclosure Disclosure to the Commission in Microsoft Word / Excel compatible format (as applicable), within 5 working days	No	Yes
Disclosures required before the beginning of the pricing year					
• Pricing methodology	By 1 March 2013 (for year beginning 1 October 2012)	By 30 September each year	Public disclosure Disclosure to the Commission in Microsoft Word / Excel compatible format (as applicable), within 5 working days	No	Yes
Disclosures required after the end of the disclosure year					
• Analytical ratios (schedule 1) • Information on financial performance for the disclosure year (Schedules 2, 3, 4, 5, 5a, 5b, 5c, 5d, 5e) • Capital and operational expenditure, by category (Schedules 6a and 6b)** • Comparison of forecast to actual	By 31 March 2014	By 31 March each year	Public disclosure Disclosure to the Commission within 5 working days in format compatible with Microsoft Excel (and Microsoft Word for explanatory notes)	Yes, for: • schedules 1, 2, 3, 4, 5, 5a, 5b, 5c, 5d, 5e, 6a, 6b, and 7 • SAIDI and SAIFI information provided in	Yes

Implementation of ID requirements for GPBs (Powerco)

(disclosure year 1 October to 30 September)

	Initial disclosure	Ongoing disclosure	Disclosure to whom*	Audit assurance?	Director's certification?
expenditure (schedule 7)** • Billed revenues and volumes (schedule 8) • Information about the network (schedules 9a to 9d)** • Information about quality (schedules 10a and 10b) • Forecast information, re-disclosed (schedules 11a to 12c) • Explanatory notes supporting the disclosed information (schedules 14, 14a, and 15—schedule 15 is voluntary)				schedule 10 • explanatory notes to schedules 2 to 7	
Pricing information to be disclosed on an ongoing basis					
• Capital contributions: policy, standard charges, independent contractor statement	Not required before 1 March 2013	At all times	Public disclosure Disclosure to the Commission within 5 working days	No	No
• Capital contributions: explanation of charges	From October 2012	Within 10 working days of receiving request	To the person requesting the information	No	No
• Actual prices	Not required	At all times	Public disclosure	No	No

Implementation of ID requirements for GPBs (Powerco)

(disclosure year 1 October to 30 September)

	Initial disclosure	Ongoing disclosure	Disclosure to whom*	Audit assurance?	Director's certification?
	before 1 March 2013		Disclosure to the Commission within 5 working days		
• Changes in actual prices	Not required before 1 March 2013	20 working days prior to a new pricing being introduced.	Public disclosure and notification to consumers Disclosure to the Commission within 5 working days	No	No
• Prescribed terms and conditions of contracts (standard contracts), including modifications	Not required before 1 March 2013	Within 20 working days	Public disclosure Disclosure to the Commission within 5 working days	No	No
• Prescribed terms and conditions of contracts (non-standard contracts): description or full terms	Not before 31 March 2014	Not before 31 March each year	Public disclosure Disclosure to the Commission within 5 working days	No	No
• Prescribed terms and conditions of contracts (non-standard contracts): modifications to existing terms and conditions***	Not before 31 March 2014	Not before 31 March each year	Public disclosure of the fact that the contract has been modified. Prescribed terms and conditions must be disclosed within 20 working days of a request, to the person	No	No

Implementation of ID requirements for GPBs (Powerco)

(disclosure year 1 October to 30 September)

	Initial disclosure	Ongoing disclosure	Disclosure to whom*	Audit assurance?	Director's certification?
			requesting the information, and publicly disclosed		
Information to be disclosed to the Commission, for compliance reasons					
• Report supporting cost allocations (Schedule 5f) • Report supporting asset allocations (Schedule 5g)	Within 5 working days after 31 March 2014	Within 5 working days after 31 March each year	Disclosure to the Commission only, in Microsoft Excel compatible format	Yes	Yes
One off transitional disclosures					
• Report on transitional financial information (Schedule 5h) • Report on Asset Allocations (Schedule 5e) for the 2010, 2011 and 2012 disclosure years • Explanatory notes to transitional information (schedule 14b)	By 31 March 2014	n/a	Public disclosure Disclosure to the Commission within 5 working days in format compatible with Microsoft Excel (and Microsoft Word for explanatory notes)	Yes	Yes

Notes:

* Where information is publicly disclosed it must be: disclosed on the Internet; made available for inspection at the EDB's offices; provided on request (within 10 working days); within 5 working days provided to the Commission in the form that it is disclosed to the public and in an electronic format that is compatible with Microsoft Excel or Microsoft Word (as the case may be)

Items marked ** are subject to transitional provisions under section 2.12 of the ID Determination.

*** Disclosure of modifications to prescribed terms and conditions of non-standard contracts applies only to non-standard contracts for which the terms and conditions have previously been disclosed.

Implementation of ID requirements for GPBs (MDL)

(disclosure year 1 January to 31 December)

	Initial disclosure	**Ongoing disclosure**	**Disclosure to whom***	**Audit assurance?**	**Director's certification?**
Disclosures required before the beginning of the disclosure year					
• AMPs / AMP updates • Forecast information (schedules 11a to 12d, as applicable) • AMMAT (only in years when a full AMP is disclosed)	By 31 December 2013	By 31 December each year	Public disclosure Disclosure to the Commission in Microsoft Word / Excel compatible format (as applicable), within 5 working days	No	Yes
Disclosures required before the beginning of the pricing year					
• Pricing methodology	By 1 March 2013 (for pricing year beginning 1 October 2012)	By 30 September each year	Public disclosure Disclosure to the Commission in Microsoft Word / Excel compatible format (as applicable), within 5 working days	No	Yes
Disclosures required after the end of the disclosure year					
• Analytical ratios (schedule 1) • Information on financial performance for the disclosure year (schedules 2, 3, 4, 5a, 5b, 5c, 5d, 5e) • Capital and operational expenditure, by category (schedules 6a and 6b)** • Comparison of forecast to actual expenditure (schedule 7)**	By 30 June 2013	By 30 June each year	Public disclosure Disclosure to the Commission within 5 working days in format compatible with Microsoft Excel (and Microsoft Word for explanatory notes)	Yes, for: • schedules 1, 2, 3, 4, 5, 5a, 5b, 5c, 5d, 5e, 6a, 6b, and 7 • explanatory notes to schedules 2–7	Yes

Implementation of ID requirements for GPBs (MDL)

(disclosure year 1 January to 31 December)

	Initial disclosure	**Ongoing disclosure**	**Disclosure to whom***	**Audit assurance?**	**Director's certification?**
• Billed revenues and volumes (schedule 8) • Information about the network (schedules 9a to 9d)** • Information about quality (schedules 10a and 10b) • Forecast information, redisclosed (schedules 11a to 12b) • Explanatory notes supporting the disclosed information (schedules 14, 14a, and 15—schedule 15 is voluntary)					
Pricing information to be disclosed on an ongoing basis					
• Capital contributions: policy, standard charges, independent contractor statement	Not required before 1 March 2013	At all times	Public disclosure Disclosure to the Commission within 5 working days	No	No
• Capital contributions: explanation of charges	From October 2012	Within 10 working days of receiving request	To the person requesting the information	No	No
• Actual prices	Not required before 1 March	At all times	Public disclosure Disclosure to the	No	No

Implementation of ID requirements for GPBs (MDL)

(disclosure year 1 January to 31 December)

	Initial disclosure	Ongoing disclosure	Disclosure to whom*	Audit assurance?	Director's certification?
	2013		Commission within 5 working days		
• Changes in actual prices	Not required before 1 March 2013	20 working days prior to a new pricing being introduced.	Public disclosure and notification to consumers Disclosure to the Commission within 5 working days	No	No
• Prescribed terms and conditions of contracts (standard contracts), including modifications	Not required before 1 March 2013	Within 20 working days	Public disclosure Disclosure to the Commission within 5 working days	No	No
• Prescribed terms and conditions of contracts (non-standard contracts): Description or full terms	Not required before 30 June 2013	Not before June each year	Public disclosure Disclosure to the Commission within 5 working days	No	No
• Prescribed terms and conditions of contracts (non-standard contracts): modifications to existing terms and conditions***	Not required before 30 June 2013	Not before 30 June each year	Public disclosure of the fact that the contract has been modified. Prescribed terms and conditions must be disclosed within 20 working days of a request, to the person requesting the	No	No

Implementation of ID requirements for GPBs (MDL)

(disclosure year 1 January to 31 December)

	Initial disclosure	Ongoing disclosure	Disclosure to whom*	Audit assurance?	Director's certification?
			information		
Information on peak flows					
• Peak flow disclosures for 12 months to 30 September each year	By 28 February 2013 (transitional disclosure)	By 30 November each year	Public disclosure, unless already disclosed on the Internet	No	No
Information to be disclosed to the Commission, for compliance reasons					
• Report supporting cost allocations (schedule 5f) • Report supporting asset allocations (schedule 5g)	Within 5 working days after 30 June 2013	Within 5 working days after 30 June each year	Disclosure to the Commission only, in Microsoft Excel compatible format	Yes	Yes
One off transitional disclosures					
• Report on transitional financial information (schedule 5h) • Report on Asset Allocations (schedule 5e) for the 2010, 2011 and 2012 disclosure years • Explanatory notes to transitional information (schedule 14b)	By 30 June 2013	n/a	Public disclosure Disclosure to the Commission within 5 working days in format compatible with Microsoft Excel (and Microsoft Word for explanatory notes)	Yes	Yes

* Where information is publicly disclosed it must be: disclosed on the Internet; made available for inspection at the EDB's offices; provided on request (within 10 working days); within 5 working days provided to the Commission in the form that it is disclosed to the public and in an electronic format that is compatible with Microsoft Excel or Microsoft Word (as the case may be)

Items marked ** are subject to transitional provisions under section 2.12 of the ID Determination.

*** Disclosure of modifications to prescribed terms and conditions of non-standard contracts applies only to non-standard contracts for which the terms and conditions have previously been disclosed.

Attachment J: List of Acronyms and Abbreviations

Term/Abbreviation	Definition
2008 requirements	The Electricity Distribution Information Disclosure Requirements 2008
The Act	Commerce Act 1986
AMMAT	Asset management Mmaturity assessment tool
AMP	Asset management plan
Asset management information	Information on how regulated suppliers are managing their assets, to supply regulated services to consumers. This includes disaggregated information on expenditure (historic and forecast), information on the assets used to supply the regulated services, information on quality, and information on the supplier's plans for managing and investing in the assets in the future.
The Commission	The Commerce Commission
CPP IMs	Input methodologies for customised price-quality paths, set out in Part 5 of the IMs
Current requirements	Electricity Distribution (Information Disclosure) Requirements 2008 and the Gas (Information Disclosure) Regulations 1997
Discussion Paper	The Commission's Information Disclosure Discussion Paper, published 29 July 2009
DPP regulatory period	The period of the DPP applying to EDBs and GPBs respectively. The current DPP regulatory period for EDBs will end on 31 March 2015. The initial DPP regulatory period for GPBs is expected to commence in 2013.
Draft ID Determinations	Draft Commerce Act (Electricity Distribution Services Information Disclosure) Determination 2012 Draft Commerce Act (Gas Distribution Services Information Disclosure) Determination 2012 Draft Commerce Act (Gas Transmission Services Information Disclosure) Determination 2012 (all under Part 4 of the Commerce Act 1986)
Draft Reasons Paper	Commerce Commission, *Information Disclosure Requirements for Electricity Distribution Businesses and Gas Pipeline Services Businesses Draft Reasons Paper*, 16 January 2012
EA	Electricity Authority
EDB	Electricity distribution business
ENA	Electricity Networks Association
EV	Economic xalue
FCM	Financial Capital Maintenance
Final Reasons Paper	This paper: Commerce Commission, *Information Disclosure Requirements for Electricity Distribution Businesses and Gas Pipeline*

	Services Businesses: Final Reasons Paper, 28 September 2012
FTE	Full time equivalent employees
GAAP	Generally Accepted Accounting Practice
GasNet	GasNet Limited
Gazette	The New Zealand Gazette, published by the Department of Internal Affairs
GDB	Gas Distribution Business
GIC	Gas Industry Company
GIDRs	Gas (Information Disclosure) Regulations 1997
GPB	Gas Pipeline Business (includes GDBs and GTBs)
GTB	Gas Transmission Business
ID	Information Disclosure
ID Determination for EDBs	Electricity Distribution Information Disclosure Determination 2012
ID Determination for GDBs	Gas Distribution Information Disclosure Determination 2012
ID Determination for GTBs	Gas Transmission Information Disclosure Determination 2012
ID Determinations	The ID Determination for EDBs, ID Determination for GDBs, and ID Determination for GTBs, collectively
ID Guidelines	The Information Disclosure Guidelines published by the Electricity Authority in February 2010
ID Requirements (IDRs)	Requirements to disclose certain information, specified in the ID Determinations
IMs	Input Methodologies as determined by the Commission in December 2010
IM Reasons Paper	Input Methodologies (Electricity Distribution and Gas Pipeline Services) Reasons Paper, dated 23 December 2010
IRR	Internal Rate of Return
MDL	Maui Development Limited
NPV	Net Present Value
NZ	New Zealand
NZICA	NZ Institute of Chartered Accountants
Part 4	New Part 4 of the Commerce Act (1986), inserted by the Commerce Amendment Act (2008). Replaces Part 4A.
Part 4 purpose	Section 52A of Part 4 of the Commerce Act (1986)
Part 4A	Commerce Act (1986) Part 4A
Powerco	Powerco Limited

Pricing Principles	The Distribution pricing principles as published by the Electricity Commission (and adopted by the Electricity Authority) for EDBs; and the pricing principles published by the Commerce Commission for GPBs
R&D	Research and development
RAB	Regulatory Asset Base
Regulated Suppliers	Regulated Entities under Part 4 of the Commerce Act 1986
RIV	Regulatory Investment Value
ROI	Return on Investment
SAIDI	System Average Interruption Duration Index
SAIFI	System Average Interruption Frequency Index
Suppliers	Regulated Suppliers
WACC	Weighted average cost of capital