VECTOR LIMITED
101 CARLTON GORE ROAD
PO BOX 99882
AUCKLAND 1149
NEW ZEALAND
+64 9 978 7788 / VECTOR.CO.NZ

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Rhianne Ogilvie
Senior Analyst
Regulation Branch
Commerce Commission
44 the Terrace, Wellington 6140

By email: regulation.branch@comcom.govt.nz

Dear Rhianne**,**

Vector submission on proposed amendments to Information Disclosure Determinations for Airport Services, Electricity Distribution and Gas Pipeline Services

1. This is Vector's submission to the Commerce Commission's (Commission) consultation on *Proposed Amendments to the Information Disclosure Determinations for Information Disclosure (ID) Determinations for Airport Services, Electricity Distribution and Gas Pipeline Services Draft Companion Paper* (the ID Consultation). The ID Consultation largely considers consequential amendments to the Information Disclosure Determinations (ID Determinations) for electricity distribution businesses (EDBs) gas distribution businesses (GDBs) and Airports arising from the 2016 Input Methodologies Review (the IM Review).

2. Vector's submission focusses on the changes to the IDs for GDBs and EDBs given our role as a supplier of these services. We have provided comments on issues common for both GDB and EDB ID Determinations and those specific to either ID Determination.

3. Some matters the Commission has deferred to future consultations on ID amendments do appear to be critical for the EDB reset scheduled to take effect on 1 April 2020. Therefore, we have concerns about the ability of the Commission to do another ID consultation in time for the reset. The omission of some necessary information will create challenges for the DPP setting process.

4. Other matters will also need to be addressed by the ID Determinations once the new EDB default price path (DPP) comes into effect. Such changes should not be left to the last moment.

Amendments for GDB and EDB ID Determinations

Cost allocation changes

Requirements for causal or proxy allocators

5. The IMs require suppliers to allocate costs using either a causal or proxy allocator. The 2016 IM review amendments now require a supplier to explain why it is unable to allocate costs using a causal allocator if it elects to allocate costs using a proxy allocator. As discussed in our IM Review submissions we note this change will create more work for our business.

Use of the avoidable cost allocation method (ACAM) as an "upper limit" on cost allocation

6. We recognise the changes to the ID Determination give effect to the IM amendments. However, we continue to have concerns about the requirement for suppliers to have to report using the accounting based allocation (ABAA) or the optional variation to ABAA (OVABAA) to also being required to report on what the allocation would have been had the supplier used ACAM as the cost allocation method. This requirement seems unnecessary for suppliers allocating costs on the basis of the ABAA.

7. The requirement to report ACAM as the upper limit on maximum values should only apply if the OVABAA has been used as the cost allocation method. This is due to the fact that the IMs allow suppliers using the OVABAA to allocate costs up to a maximum of ACAM levels. Requiring suppliers to report what the ACAM value would be regardless of cost allocation method creates unnecessary compliance costs and will lengthen audit processes for limited information benefit.

8. We recommend the requirement to report ACAM be limited to where OVABAA has been used to allocate costs.

Weighted average cost of capital (WACC) changes

9. We recognise the need to align the leverage parameter in Schedule 2 'Report on Return on Investment' to align with the update of this parameter from the IM review.

10. The change to the definition of 'Cost of Debt Assumption' in Schedule 16 does not provide sufficient guidance as to whether the average debt premium will need to be updated annually or whether it is fixed. We encourage the Commission to provide further clarification as to how the debt premium will be estimated for the cost of debt for ID reporting.

Asset health information and asset information

Health indicators

11. The Commission has proposed changing the asset health grading system for Schedule 12a 'Report on Asset Condition' to align with the Electrical Engineers Association's (EEA) health index.

12. Changing the grading system will cause discontinuity with the data series for Schedule 12a. Therefore, any future trend analysis by the Commission will need to recognise the change in reporting from the current methodology to the EEA's asset health grading.

13. We note the EEA's asset health grading only provides gradings for a selection of the assets covered by Schedule 12a. Assets such as sub-transmission and distribution lines, SCADA and communications equipment are not captured by the EEA's asset health grading. Therefore, prescribing the EEA's health grading may result in asset classes not covered by the EEA's asset grading framework to not be graded. We encourage the Commission to consider how such asset classes will be graded before prescribing changes.

Asset class value

14. We have some reservation about the requirement to provide regulated asset base (RAB) values at an asset class level. Given the Commission already has RAB values for assets at the category level in Schedule 4(vii) of the 'Report of the Value of the RAB', we see very little additional benefit from having financial values also added to Schedule 9a 'Asset Register'. The information provided to the Commission currently gives it both a reasonable understanding of the RAB value of assets at the category level and the physical composition of those asset categories. Therefore, we are not certain about the problem the Commission is seeking to address from this additional information.

15. The proposed change will create significantly more time and cost with updating Schedule 9a than has been involved to date. Accordingly, we do not find the proposed change to be proportionate or reasonable. Creating such a substantive change to the population of the schedule after multiple years of disclosures will create challenges for suppliers.

GDB ID Determination comments

16. Below we provide our comments to the proposed changes for the GDB ID Determination.

New recoverable cost definitions

17. Vector supports the amendments to Schedule 2 'Report on Return on Investment' and Schedule 3 'Report on Regulatory Profit' and amendments to Schedule 16 'Definitions' recognising the new the recoverable costs for the capex-wash up adjustment and catastrophic event allowance included in the GDB IMs as part of the IM Review.

GDB customised price path (CPP) incremental rolling incentive scheme (IRIS)

18. Part 3 of the GDB IM Determination was amended to remove the sections related to the IRIS. The decision to remove the IRIS was consulted upon by the Commission as part of its

review of the GPB DPP. However, we have some concern with the consequential amendments to the ID Determination to give effect to this change.

19. The new definition of *financial incentive* in Schedule 16 appears to reference section 53V(2)(c) of the Commerce Act as empowering the Commission to set new recoverable costs for both DPPs and CPPs. We understand this section entitles the Commission to remove the IRIS from the CPP IMs with agreement with suppliers.

20. The section does not provide a power for the Commission to set financial incentives for suppliers either in a DPP or CPP as stated by the new *financial incentive* definition in Schedule 16. We recommend the Commission redraft this definition.

EDB ID Determination comments

21. Below we provide comments on the proposed amendments to the EDB ID Determination. We also provide feedback on matters the Commission has deferred to future rounds of ID consultation.

Commencement date

22. We are concerned about the risk of confusion arising from the proposed commencement dates for the relevant IM changes.

23. Part 2 (Subparts 2 to 4) of the IMs will come into force on the commencement date of this round of ID amendments. This contrasts with the other IM amendments which apply from Disclosure Year 2019.

24. For consistency we recommend the changes implemented by the Commission from this ID Consultation to all apply from Disclosure Year 2019.

Aligning the methodology for normalising SAIDI and SAIFI between the DPP and ID

25. Numerous parties have raised with the Commission problem about the methodologies used to calculate SAIDI and SAIFI are inconsistent between the ID and DPP. Attachment B of the EDB ID Determination still references the 2.5□ method for normalising the SAIDI and SAIFI. However, the most recent DPP has moved away from the 2.5□ method.

26. The failure to update the EDB ID Determination with the new approach for normalising SAIDI and SAIFI in the DPP requires suppliers to have their SAIDI and SAIFI data published and audited using different methodologies for price quality compliance and ID reporting. This results in two data sets creating confusion, unnecessary work and imposing costs for EDBs.

27. In March 2016, the Commission stated this issue would be considered in future rounds of amendments.[1] It is unclear why this has been deferred from this round of ID amendments. The Commission should consider aligning the requirements in the ID and DPP as part of the current ID Consultation.

Accelerated depreciation

28. The ID Consultation does not discuss the consequential changes to the EDB ID Determination allowing for accelerated depreciation which has been provided for in the EDB IMs. A successful application for accelerated depreciation under the EDB DPP IMs will require information disclosures to change for the successful applicant. We see no risk with progressing the amendments for accelerated depreciation now given they are based on an application made in advance of the EDB DPP reset.

29. We anticipated more information in this ID consultation round in relation to this significant change to the EDB IMs. We recommend the Commission consider the relevant changes that will need to be made to Schedule 4 'Report on the Value of the RAB' and the Schedule 16 Definitions of the EDB ID Determination to give effect to the IM accelerated depreciation changes.

EDB – short asset life wash-up

30. Vector notes at the time of the 2015-2020 Default Price Path (DPP) the Commission's Main Policy Paper[2] noted it had implemented a mechanism to neutralise the disincentive for suppliers to invest in shorter life assets. At the time the Commission noted:

> *Due to the way we have implemented a constant strength capital expenditure, we have solved one of the barriers identified by the ENA Energy Efficiency Incentives Working Group about the standard asset life assumption(s) relied on when setting price-quality paths.*

31. The Commission noted:

> *In particular, before applying the retention factor to the difference between actual and forecast expenditure, there is an initial wash-up for the difference between*

[1] Commerce Commission, *Issues Register for Electricity and Gas Information Disclosure*, 30 June 2016, at 447

[2] Commerce Commission, *Default price- quality paths for electricity distributors from 1 April 2015 to 31 March 2020: Main Policy Paper,* 28 November 2014, p. 68

forecast and actual return on and of capital. This ***wash-up*** *corrects for the difference between the actual asset life of installed assets, and the asset life that was assumed at the time the price-quality path was reset.*[3]

32. Vector understands this approach to determining the capex wash-up is specified in clause 3.3.11 of the EDB IMs which requires:

> *for the purpose of sub-paragraph(i), adopt the sum of depreciation calculated in Part 2 in respect of each disclosure year for assets have a commissioning date in the preceding DPP regulatory period.*[4]

33. We recommend section 4(vii) of Schedule 4 'Report on Value of RAB' also records in the asset life section the weighted average remaining life of commissioned assets for the year. This information will allow the Commission to follow the average life of commissioned assets for each year.

Conclusion

34. We encourage the Commission to comprehensively consider the changes necessary for updating the ID Determinations. Please contact myself at Richard.Sharp@vector.co.nz for any further information in relation to any matters raised in this submission.

Yours sincerely
For and on behalf of Vector Ltd

Richard Sharp
Head of Regulation & Pricing

[3] Ibid, p. 52
[4] Clause 3.3.11(2)(b)(ii), *Electricity Distribution Services Input Methodologies Amendment Determination 2012* – consolidated as of 28 February 2017

APPENDIX A: Summary of Vector comments on the proposed amendments to the ID Determinations

Area of change	Clause or schedule in the ID	Vector view
GDB and EDB ID Determinations		
Cost allocation changes		
Proxy cost allocators	GDB and EDB clause 1.4.3 (definitions) GDB and EDB Clause 2.3.5 (5)	These changes impose an additional information burden.
Use of ACAM as a "upper limit" on cost allocation	GDB and EDB clause 1.4.3 (definitions) GDB and EDB Clause 2.3.5 (6)	The requirement to disclose ACAM cost allocation values will materially increase the costs for ID. We recommend the requirement to disclose ACAM as the upper limit on cost allocation only apply if the supplier has used OVABAA for cost allocation.
Weighted average cost of capital (WACC) changes		
Leverage	GDB and EDB Schedule 2 'Report on Return on Investment'	Recognise the change reflects an update of this parameter in the IM review.
Cost of debt	GDB and EDB Schedule 16 definition of 'cost of debt assumption'	Further clarification is needed with the definition so parties know whether the debt premium average will need to be recalculated on an annual basis or whether the average is fixed.
Asset health information and asset information		
EDB health indicators	EDB Schedule 12a 'Report on Asset Condition'	The EEA index only covers half the assets in Schedule 12a. We recommend the Commission provide guidance for how it will require assets to be graded that are not considered by the EEA index.
Asset class values	GDB and EDB Schedule 9a 'Asset Register'	Populating Schedule 9a with asset class RAB financial values will require considerable cost for not much benefit given the Commission already has a time-series of RAB asset category levels in Schedule 4(viii) 'Report on value of RAB'.
GDB ID Determination comments		
New recoverable costs	GDB Schedule 2 'Report on Return on Investment' and Schedule 3 'Report on Regulatory Profit' GDB Schedule 16	Vector supports amendments recognising the new recoverable costs for the capex-wash up adjustment and catastrophic event allowance included in the GDB IMs as part of the IM review.

GDB incremental rolling scheme information (IRIS)	GDB Schedule 16 (definitions)	The amended definition in Schedule 16 incorrectly suggests the Commission can set financial incentives for suppliers either in a DPP or CPP using section 53V(2)(c) of the Commerce Act. We recommend the Commission redraft this definition.
EDB ID Determination comments		
Commencement date	EDB clause 1.2	We recommend the Commission align the commencement date for the IM changes to sub-part 2 to 4 of the IMs to also apply from the 2019 Disclosure Year similar to the changes for Part 2 sub-part 1.
SAIDI and SAIFI normalisation methodology	Attachment B	We recommend the Commission align the normalisation methodology with the method used for the Default Price Path.
Accelerated depreciation	EDB Schedule 4 'Report on the Value of the RAB' EDB Schedule 16 (Definitions)	The ID amendments paper does not discuss the changes to the EDB IM Determination for accelerated depreciation, namely clause 2.2.8(4)(b). We anticipated more substantial amendments to facilitate the changes with the amended clause. We expected more substantive changes to Schedule 4 'Report on value of the RAB'. We recommend the Commission consider the relevant changes that need to be made to Schedule 4 'RAB roll-forward' and Schedule 16 (definitions) of the EDB ID Determination to give effect to the IM accelerated depreciation changes.
Short asset life washup	EDB Schedule 4 'Report on the Value of the RAB'	We recommend the Commission include in Schedule 4 'Report on the Value of the RAB' an additional row in section 4(vii) asset life for the weighted average life of commissioned assets for the disclosure year.